RESTRICTIVE TRADE PRACTICES COMMISSION

Material Collected by Director of Investigation and Research
in connection with an inquiry into

LOSS-LEADER SELLING

DEPARTMENT OF JUSTICE, OTTAWA

1954

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.

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RESTRICTIVE TRADE PRACTICES COMMISSION

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PREFACE

1. To avoid misunderstanding, it is emphasized that this is not a Report under the Combines Investigation Act. It is material collected by the Director of Investigation and Research, for the purpose of laying it before the Restrictive Trade Practices Commission, in connection with the inquiry into "loss-leader" selling.

2. The inquiry was begun as a result of the recommendation of the MacQuarrie Committee that the practice of "loss-leader" selling should be studied "with a view to determining its prevalence and its effects and to recommending to the Minister suitable amendment, if necessary, of the [Combines Investigation] Act."

3. Efforts were directed, principally, to obtaining information on two aspects of the practice. First, it was considered important to have as wide and representative a body of opinion as was possible on such questions as definition, the distinction between "loss-leader" selling and certain other types of sales promotion, and motivation. To this end, a 12-point questionnaire was widely circulated and the replies received have been summarized in such a way as to bring out in detail the views expressed. Second, an attempt was made to obtain detailed, statistical information on the actual extent and effects of the practice in situations where this seemed possible. Unfortunately, however, the statistical information of this nature that it proved possible to obtain was limited.

4. It will be noted that the section relating to cigarettes is somewhat more comprehensive than the other sections. For this there are several reasons. For one thing, the trade in tobacco products, comprising chiefly cigarettes, represents a closely defined field where pricing structures are relatively uniform and simple; and this made it possible and practical to examine more aspects than was the case with other products. In the second place, the representations received from the tobacco retailers were divided in their point of departure, some alleging hardship by reason of reduced selling prices and others alleging hardship on the ground of unsatisfactory buying prices. Thus the cigarette situation conspicuously points up the fact that, in comparing competitive positions, selling prices are in particular cases merely the other side of the penny from buying prices. For these reasons it was considered useful and proper to explore, in the case of cigarettes, certain questions which were not given so much prominence by complainants in the case of other products.

5. No judgments are expressed in the following pages as to the sufficiency of the information that was made available to the Director or the conclusions to be drawn therefrom. Those are functions of the

Restrictive Trade Practices Commission to which the information has now been submitted in order that it may, in accordance with the Act, consider such material "together with such further evidence or material as the Commission considers advisable and report thereon in writing to the Minister".

(Sgd.) T. D. MacDonald

T. D. MacDonald
Director of Investigation and Research
Combines Investigation Act

Ottawa, Ontario
February 16, 1954

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I. INTRODUCTION

In a report dated October 1, 1951, the MacQuarrie Committee* recommended that it should be made an offence for a manufacturer or other supplier:

1. To recommend or prescribe minimum resale prices for his products;

2. To refuse to sell, to withdraw a franchise or to take any other form of action as a means of enforcing minimum resale prices.

This recommendation was implemented by Parliament by section 34 of the Combines Investigation Act which came into force on December 29, 1951 and provides as follows:

> "34. (1) In this section 'dealer' means a person engaged in the business of manufacturing or supplying or selling any article or commodity.
>
> (2) No dealer shall directly or indirectly by agreement, threat, promise or any other means whatsoever, require or induce or attempt to require or induce any other person to resell an article or commodity
> - (a) at a price specified by the dealer or established by agreement,
> - (b) at a price not less than a minimum price specified by the dealer or established by agreement,
> - (c) at a markup or discount specified by the dealer or established by agreement,
> - (d) at a markup not less than a minimum markup specified by the dealer or established by agreement, or
> - (e) at a discount not greater than a maximum discount specified by the dealer or established by agreement,
>
> whether such markup or discount or minimum markup or maximum discount is expressed as a percentage or otherwise.
>
> (3) No dealer shall refuse to sell or supply an article or commodity to any other person for the reason that such other person
> - (a) has refused to resell or to offer for resale the article or commodity
>   - (i) at a price specified by the dealer or established by agreement,
>   - (ii) at a price not less than a minimum price specified by the dealer or established by agreement,

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* Report of the Committee to Study Combines Legislation and Interim Report on Resale Price Maintenance, Queen's Printer, Ottawa, 1952.

(iii) at a markup or discount specified by the dealer or established by agreement,
(iv) at a markup not less than a minimum markup specified by the dealer or established by agreement, or
(v) at a discount not greater than a maximum discount specified by the dealer or established by agreement, or

(b) has resold or offered to resell the article or commodity
(i) at a price less than a price or minimum price specified by the dealer or established by agreement,
(ii) at a markup less than a markup or minimum markup specified by the dealer or established by agreement, or
(iii) at a discount greater than a discount or maximum discount specified by the dealer or established by agreement.

(4) Every person who violates subsection two or three is guilty of an indictable offence and is liable on conviction to a fine in the discretion of the court or to imprisonment for a term not exceeding two years or to both."

Among the representations* made to the MacQuarrie Committee in favour of permitting resale price maintenance when practised independently by a supplier was the following: [underlining supplied]

"2. Prevents economic concentration in the retail field

Retailers' associations argue that resale price maintenance helps to keep the small independent retailer in business, thus ensuring an adequate number of outlets and preventing concentration of economic power in the retail field. Resale price maintenance is supposed to achieve those results by obliging all distributors to sell at a uniform price which provides an adequate margin of profit for the small retailer.

In the absence of resale price maintenance, three factors may contribute to eliminate small business and to bring about a greater concentration of economic power. First, large department and chain stores, operating at a lower unit cost, may charge a lower price than the small retailer. Second, they are in a particularly advantageous position to use the 'loss-leader' device in order to attract more business and gradually eliminate their smaller rivals. Third, it is pointed out in one of the briefs that the large stores have complete control over the

* These representations are summarized in the Report of the Committee, pp. 59-66.

price of their own brands and that, without resale price maintenance, price cutting would occur only on products also handled by dealers whose volume of trade is already too small to enable them to carry their own brands.

Without resale price maintenance, it is contended, large stores enjoying these advantages would expand, whilst the small retailer must be gradually forced out of business."

(pp. 59-60)

In recommending the prohibition of resale price maintenance* the MacQuarrie Committee referred in the following terms to "loss-leader" selling:

"As to the 'loss-leader' device, the Committee believes that it is a monopolistic practice which does not promote general welfare and therefore considers that it is not compatible with the public interest. However, we do not believe that it presents any immediate danger: extreme forms of price-cutting are not very likely in this period of inflation and relative scarcity. Moreover, we are convinced that there can be found other effective and more desirable methods of controlling the 'loss-leader' than minimum resale price maintenance. Present circumstances afford time to make a careful study of such methods and the Committee, therefore, does not think it imperative to make an immediate and hasty recommendation regarding that practice."

(pp. 71-72)

In making its final report the MacQuarrie Committee stated: [underlining supplied]

"(3) '<u>Loss-Leaders</u>'

In its Report on Resale Price Maintenance, the Committee has already stated that the practice, when it existed, of using various branded goods as 'loss-leaders' was not in the public interest. It was indicated that the Committee did not, however, fear that in the present circumstances the 'loss-leader' problem was likely to be important if resale price maintenance were prohibited. Though contrary opinions were expressed, the Committee is satisfied that the evidence since the passing of the amendment confirms its judgment. Only one representation has been made to us on this subject.

The matter is one which is complex, particularly when dealt with in legislation which is based chiefly on criminal law.

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* The following statement was part of the "General Conclusions and Recommendations" of the <u>Interim Report on Resale Price Maintenance</u>.

The facts are much more various than one would suppose from reading the contentions of those who advocate systems of resale price maintenance. The practice requires careful definition as mere prohibition of selling below invoice costs would affect a very limited proportion of cases. Leeway must be given in some cases at least for the disposal of surplus stock. In any case there does exist in section 498A (c) of the Criminal Code some protection against the most extreme uses of the device.

We therefore propose that the 'loss-leader' practice should be referred by the Minister for thorough study by the proposed agency and board with a view to determining its prevalence and its effects and to recommending to the Minister suitable amendment, if necessary, of the Act."

(p. 46)

As a result of this proposal by the MacQuarrie Committee this present inquiry was undertaken. In carrying out this inquiry special emphasis was placed on obtaining opinions from those individuals, firms and organizations that might be expected to have the most direct experience and knowledge of "loss-leader" selling, and on obtaining statistical information, particularly from distributors, relating to the impact of alleged cases of "loss-leader" selling that came to the Director's attention. The procedure employed in carrying out these inquiries is set out in the sections reporting the information received. In addition, an attempt has been made to bring together information and opinions relating to "loss-leader" selling from a variety of sources: governmental investigations, studies by economists, lawyers and accountants, agencies enforcing legislation designed to control "loss-leader" selling, and the like.

II. "LOSS LEADERS" - DEFINITION AND CHARACTERISTICS

The practice to which reference is made by the term "loss-leader" selling is subject to a variety of interpretations, as will be pointed out in the section of this Statement which deals with the replies received by the Director to the 12-point inquiry that was widely circulated among manufacturers, distributors, consumer, labour and farm groups. The various definitions have one thing in common: a "loss-leader" item is one that is cut in price. It is clear that in order to speak of price cutting at all it is essential to have in mind some "standard" or "customary" level below which a price is cut. The problem of differentiating between the normal play of price competition and "undesirable" forms of price cutting thus becomes a central aspect of any definition of "loss-leader" or "leader" selling. The following definitions selected from the writings of authorities on marketing indicate the nature of the attempts to resolve this difficulty.

> "Generally, loss leaders are goods sold either below cost or at such a low percentage of mark-up as would not, if applied to all lines, cover costs of operating. The term is often extended to goods that are simply sold at prices below the usual mark-up."

The difficulty encountered by definitions that identify as "loss leaders" all items sold below the "average" mark-up for all products in the dealer's assembly of goods, is that, on a purely mathematical basis they throw into the "loss-leader" category all items sold below the average mark-up without regard to faster rates of turn-over, lower handling costs and other factors that might justify lower than average mark-ups. In the grocery field, in particular, a number of the major staples are sold at mark-ups that are substantially below the average for all lines handled. Under such definitions this important group of products, which generally have a fast turn-over, would fall into the "loss-leader" category.

Another definition runs as follows:

> "In its broadest sense the 'loss leader' is merchandise featured or sold at reduced prices for the purpose of attracting customers and thereby stimulating, sales not only of the 'leader' but also of other commodities."

Here emphasis is placed on the purpose of the price reduction rather than on its extent but no reliable method of divining the purpose of a price reduction is apparent as is pointed out in the next definition.

> "The 'loss-leader' policy consists of selecting a well-known, widely advertised and trade-marked item, and offering

it for sale at less than cost. Thus, customers are attracted within the doors, in the hope that they will make other purchases in addition to the featured article . . . .

From this extreme, the policy of offering 'leaders' grades down to offering selected articles at lower than normal mark-on, probably not covering the primary cost of selling. But the irregularities of merchandising markets often force retailers to sell particular items at lower than normal mark-on, even though no come-hither policy is involved."

The question of whose mark-up should be taken as the bench mark for identifying a "loss leader" is raised in the following attempt at definition.

"A price leader is a commodity specially priced in order to attract customers to the store in the hope that they will buy not so much the good specially priced as other commodities. The term 'loss leader' as used by various people has different meanings. It may refer to leaders priced below the net purchase price, or merely to goods priced below the usual level, or to goods having less than the average markup. . . .

Many goods offered at very low prices by chains, which may appear to independents as loss leaders selling below net purchase price, are in reality bringing the chains a fair margin or return. The low price is possible because of special discounts received from manufacturers."

This group of definitions is by no means exhaustive but it indicates some of the major difficulties encountered in the attempt to distinguish between price reductions that amount to "loss-leader" selling and those that arise in the course of normal merchandising operations. Supplementary to these attempts to define the nature and purpose of "loss-leader" selling are definitions which set out the characteristics of items that can be used effectively as "loss-leaders".

Seligman and Love list the following as characteristics of items suited to be used as "leaders".

"In the first place, for a product to be effective as a 'leader' it must be standardized. This is obviously needed in order to facilitate a comparison of the cut prices with those that are found elsewhere. Bulk goods such as sugar or other standard items in which quality and quantity are easily ascertained possess this qualification. The same characteristic obviously is found in a particularly great degree in the trade-marked products so familiar to the modern public.

In the second place, the article must have a general appeal . . . .

The third characteristic . . . is the requirement that the article must be of a type frequently displayed for purchase. Articles that are bought only rarely or infrequently are obviously excluded from consideration. Furniture, for instance, which is perhaps bought once in a lifetime or in a decade is clearly unsuited to figure in the 'leader' lists. The same is true of pianos, grandfather clocks and similar articles in which there are no great changes of style or fashion. . . .

In the fourth place, price also plays its share in determining the desirability of an article as a 'leader'. This is of importance as excluding both very expensive and very inexpensive commodities from the possibility of being used as 'leaders'. On the one hand, the retailer hesitates to use more expensive items for such purposes because in sacrificing his margin he forgoes a larger absolute amount than he does on a less expensive item. Moreover, especially when he is dealing with a permanent client, he loses the opportunity of making another sale of the same lucrative item at an early date. On the other hand, we must consider the consumer's lack of interest in inexpensive goods. When we are dealing with a five- or ten-cent article, a reduction of 10 per cent or even 20 per cent is scarcely sufficient to arouse the consumer's attention or to make it worthwhile for him to go to one place rather than to another. Well-planned merchandising policies will endeavor to strike a compromise between these two opposing forces."*

(pp. 153-155)

To this list of characteristics, Dean Grether adds that the most effective "leader" would be used frequently and in substantial amounts, otherwise "a price reduction will not bring an increase in patronage on it, let alone other goods;" and that it "should be of such a nature as to make it undesirable for purchasers to buy in large quantities to store for future consumption. . . ."**

(p. 203)

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* E. R. A. Seligman and R. A. Love, Price Cutting & Price Maintenance, 1932.

** E. T. Grether, Price Control Under Fair Trade Legislation, 1939.

III. THE DEVELOPMENT OF "LOSS-LEADER" SELLING

The use of "leaders" and "specials" is by no means a recent development. We are told, for example, that as long ago as 1765 a group of sixteen well-known Hartford merchants considered it necessary to insert the following advertisement in the Connecticut Courant of August 26th:

> "All persons indebted to us the Subscribers, either by Bond, Note or Book, are hereby notified and cautioned to beware of repeated, pompous Advertisements, inserted in the Connecticut Courant, signed, Thomas Davidson & Comp. wherein they insinuate to the Public, that they import their Goods immediately from the Makers--which let them believe, who will--Consider with yourselves whether a Company advertising selling trifling Articles, at prime cost, or less, will serve you with other things not so commonly known at the same Rate; or whether 'tis not an Allurement to get a greater Advance where it may be laid, without Discovery, by which possibly many may be deceived."*

A well-known Canadian merchant, Mr. C. L. Burton, C.B.E., has also referred to the antiquity of "leader" selling in the grocery trade in his recent book - "A Sense of Urgency" - as follows:

> "The usual device, I suppose as old as Adam, of offering staples as loss leaders, was used by him. Sugar! How sweet twenty-one pounds for $1.00 sounds against a competitor's twenty pounds. Bogart had the natural shrewdness of a New Englander, and pulled many a coup; but the individual dimensions of each of these was not important.
>
> Every time we offered something for nothing--more sugar for the dollar, a few cents off potatoes by the bag--we had a flood of business from boarding houses, cheap hotels and from such as would buy only when bargains were offered. The chief result of such sales was extra work and loads for our delivery, and many a broken wagon spring."

(p. 177)

However, even though the practice of "leader" selling can trace its origins to the remote past, it is not improbable that certain recent developments in merchandising have given it an added

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* M. G. Reid, Consumers and the Market, 1938, p. 195.

importance. Two major factors have been suggested as contributing to an increase in the use of "leaders". First, emphasis upon the price appeal is likely to be most pronounced during those periods when new methods of merchandising are being introduced and are making rapid headway. Professor McNair has emphasized this point in the following quotation:

> "Periodically the rising costs of distribution get a setback from the development of some new type of marketing enterprise. Over a period of years we have seen this role played by the department store, by the chain store, and by the supermarket. Almost invariably these new enterprises begin on a price appeal basis. Then gradually they go through a long cycle of trading up, improving quality, adding services, and so on, until finally the umbrella of gross margin has been hoisted so high that the way is wide open for some new enterprise to begin once more on a low price basis. . . ."*

Price reductions, according to this view, play an important role in the introduction and growth of new methods of distribution. The cumulation of changes in wholesaling and retailing seen in the past three decades and of which the self-serve chain store and the supermarket are to the consumer the most striking manifestations has, undoubtedly, placed established methods of distribution under severe pressure and has focussed attention on retail margins to a degree that has required substantial and often painful adjustment.

A second factor that has given added significance to the use of "leaders" is the increase in modern merchandising of retail outlets that are subject to heavy overhead costs and that carry a wide range of products and a large number of individual items. The way in which price reductions are used effectively to increase returns under these circumstances has been well described by Seligman and Love in the following quotations:

> "Overhead costs . . . may be defined as costs which exist irrespective of the volume of business; while specific cost is the cost of securing the additional volume of business.
>
> . . . Inasmuch as on a particular sale the overhead costs remain the same, any price which exceeds the specific cost of securing the additional business is profitable to the seller. Although the price may be far below the usual or average price, it constitutes an addition or contribution which would otherwise not be made and thus augments the final profits.

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* From Malcolm P. McNair, "Fair Trade Legislation and the Retailer", The Journal of Marketing, April, 1938, pp. 297-299. Mr. McNair is Professor of Retailing at Harvard University.

It is important to remember, however, that under modern conditions, in lieu of a specific cost figure which the manufacturer can utilize for the purpose of fixing his price, we find a cost figure which is itself a function of the volume of sales, and hence of the price at which the article is sold. Instead of using his costs as a criterion of selling prices, the manufacturer frequently starts out by studying the price situation in order to ascertain what volume of business can be expected at various prices. With this comparison as a basis, he then considers what his costs will be at different volumes of business. In doing this, however, he evidently recognizes that overhead when regarded from the point of view of unit cost is itself not a constant, but a variable, that extent of which depends upon the number of items over which it is spread.

While this situation was not unknown under former economic conditions, the increasing use of capital and the structure of modern industrial life have resulted in a greatly increased proportion of overhead costs. The last quarter of the century has everywhere witnessed so rapid a development that growth of overhead costs may be declared to be virtually a twentieth-century phenomenon. This explains why present-day pricing problems differ so decidedly from those visualized by the earlier economists. . . . The lure of additional volume has come to be a paramount factor in shaping business methods and pricing policies."*

When to heavy overhead costs is added a situation in which a large number of items is sold at "interdependent prices" - that is, under conditions in which a change in the price of one item may significantly affect sales of other items - the possibilities of strategic price cuts increasing profits are greatly enhanced as Seligman and Love have pointed out:

"The business man, indeed, acts in general in order to secure a profit, and in this sense profits are a condition of price. But by profits must be understood the profits of the business as a whole, and not necessarily the profits of the business in detail. Profits as a whole may be compatible with losses in detail. In the practice now before us, the ultimate objective of profits as a whole depends upon immediate losses of a particular kind. How is this possible?

In the first place, it must be remembered that few producers limit their output to a single product. Most manufacturers, and a still greater proportion of distributors, whether wholesale or retail, deal in their ordinary course of business with a large number of articles. Even the automobile agency which is limited to one particular make of car, not only carries different models in stock, but usually engages in the used car business,

* Price Cutting and Price Maintenance, pp. 123-124

sells parts and, perhaps, conducts a banking enterprise. The pricing policies in any one of these branches is necessarily formulated in a way which will not react unfavorably on the remainder of the business. But from this comparatively simple type, where only a small number of different products are sold, there is a gradation to the most complicated forms of enterprise, culminating in the large department stores with their thousands of products, and with the mail-order firms with their tens of thousands. Nowadays a firm does not have to be a large one to deal in a great variety of products. Even a modern drug store in a small town can carry a large number of drug items. A wholesale hardware merchant recently increased his business materially by the reduction of items carried by him from 15,000 to 7,000. Under the conditions created by this astounding multiplicity of items, it is scarcely surprising that business men look for the effect which a given price on a single article may exert upon the remainder of the business quite as much as they consider the result of selling the particular article at a price which will net them a profit. Modern business, in other words, is a composite phenomenon, and the prices of all the articles dealt in must be considered primarily as interdependent prices. If the volume of sales of a few thousand items appears to be at stake, it may be good business for a distributor to sacrifice his profits on a single item and perhaps even to sell at a loss. . . .

It might be thought that what we have said applies only to the individual who is first in the field, and who takes the lead in cutting prices. As a matter of fact, it will be found that this is not true, and that dealers frequently resort to this kind of price cutting as a defensive measure in order to obviate the imminence of still greater losses. It is entirely conceivable, and indeed a matter of common occurrence, that a dealer may lose business by refusing to descend to the cut-price level of his competitor, just as surely as he may gain business by being the first to reduce the price."*

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* Price Cutting and Price Maintenance, pp. 130-132.

IV. SUMMARY OF REPLIES TO 12-POINT LETTER ON NATURE AND EFFECT OF "LOSS-LEADER" SELLING

The Restrictive Trade Practices Commission came into existence, as pointed out above, on November 1, 1952. Pursuant to the recommendation of the MacQuarrie Committee that the "loss-leader" practice should be the subject of thorough study in order to determine its prevalence and its effects and to recommend to the Minister "suitable amendment, if necessary, of the Act", a survey of "loss-leader" selling was promptly initiated. As one of the first steps in this survey, the Director, on November 4, 1952, sent out an inquiry (a copy of which is attached as Annex I) covering twelve major points relating to the nature and effect of "loss-leader" selling to a large number of individual firms, to trade associations and to consumer, labour, co-operative and farm groups. A further letter of November 7, 1952, was sent to trade associations and to the central agencies of the other groups that received the 12-point letter emphasizing the interest of the Director in obtaining reports on the experience of individual firms with respect to "loss-leader" selling and asking that the questionnaire be brought to the attention of all the members who might be interested in this matter. This inquiry was given considerable publicity by the trade press as was also a follow-up letter to trade associations and other groups dated April 17, 1953, (a copy of which is attached as Annex II).

In all, 111 replies were received which dealt more or less comprehensively with the various points raised. One hundred and seven of these replies came from Canadian sources and four from sources in the United States. Two of the four replies from the United States came from parent organizations with branches or subsidiaries in Canada, one came from an American organization set up specifically for the purpose of promoting the interests of "Fair Trade", and one came from a private individual who had read about the inquiry in the New York Times of December 28, 1952. The points raised by the replies from these two latter United States sources have been omitted from the summary that follows.

Replies received from Canadian sources can be classified into the following groups:

Chain stores	10 replies	
Consumer groups	2 "	
Farm groups	1 reply	
Labour groups	2 replies	
Co-operative associations	11 "	
Individual small retailers	4 "	
Individual wholesalers	2 "	
Department stores	10 "	
Trade associations	22 "	
Manufacturers	43 "	107 replies

A detailed summary of the replies received from these sources, together with the two replies received from the parent organizations in the United States, is given in this section.

To this summary it may be added that the only fields in which "loss-leader" selling was considered by those replying to the inquiry to be of significance, were groceries and household electric appliances. Although no detailed submission was received from associations in the drug store field, comments of a general nature were received which suggested that under changed economic conditions, "loss-leader" selling would become a matter of concern in that field. Representations were also received from an association of retailers in the hardware field with reference to the use of coupons and premiums in retail distribution. Further reference to these matters is contained in later sections of this statement.

Perhaps a brief comment should be inserted at this point with respect to the interpretation of two of the 12 points in the Director's letter of November 4, 1952. The two questions that appeared to present difficulties of interpretation to a few of those replying to the questionnaire were numbers 2 and 5, which were apparently regarded as being essentially the same. Question 2 reads as follows:

> "How the 'loss-leader' practice can be distinguished from such well-recognized merchandising practices as the clearance of damaged goods, surplus stocks and end-of-season stocks; one-cent sales; price reductions on new goods to introduce them to the market; price reductions that reflect differences in costs of goods and in operating efficiency; and price differences that reflect differences in the method of marketing (as super-markets and drug stores selling the same product)."

This question raises the point of how, in fact, one type of <u>price reduction</u> can be distinguished from other types.

Question 5, on the other hand, reads as follows:

> "How 'loss-leader' selling differs from alternative means of accomplishing, at the same cost, the same sales results such as advertising, premiums to employees, a slight general price reduction, merchandise premiums to patrons, feature sales, and the like."

Here the question posed was how, in principle, one type of <u>sales promotion</u> could be differentiated from other types involving the same outlay and upon what grounds the distinction should be made, assuming that it is possible to make it.

Apart from the difficulty presented to a few respondents by these questions, failure to provide answers to any of the 12 questions was apparently due primarily to the inherent complexity of the issues raised rather than to problems of interpretation.

A. Summary of Replies from Manufacturers to the Questionnaire on "Loss Leaders" of November 4, 1952

Forty-three replies were received from manufacturers to the questionnaire on "loss leaders". Of these there were ten that commented in detail on most of the twelve points raised in the questionnaire. A further twelve submitted replies which dealt in general with "loss-leader" selling and also commented specifically on a few of the twelve points. Finally, there were twenty-one replies which were limited to brief and general remarks on "loss-leader" selling. In this latter group were four manufacturers who reported that "loss-leader" practices were not characteristic of their industries. One of these (dry goods) said:

> "Furthermore, we do not believe it is the practice of the retail trade served by our Company to indulge in 'loss-leaders' type of selling."

Another said essentially the same thing about the shoe industry:

> "We believe you could safely say the 'loss-leader' practice is non-existent in the shoe retailing chains in the . . . area. This would be equally true for the independent operators. The department store field might appear to practice it but it is our belief that the special offerings they make in shoes are more as a result of a special purchase rather than a 'loss leader'."

In still another industry (men's wear) the following reply was received:

> "In our opinion the loss-leader item does not enter our picture at all.
>
> We might also mention that in our opinion this phase would not apply to the portion of our industry who operate under their own trade-marks."

Finally, the manufacturer of a wide range of cotton and woollen knitted wear commented as follows:

> "Furthermore, so far as it has been reported to us, the merchandise which we manufacture has not been made the subject of such a practice."

(1) Definition of a "Loss Leader" as Submitted by the Manufacturers

Sixteen of the returns endeavoured to define a "loss leader". Eleven of these defined the practice as a sale at a price below normal operating profit, at too low a price to bring in a profit, or at a price less than that prevailing in the market. Typical of these replies was the following:

"We would define a 'Loss-Leader' as being a product offered for sale at a price which provides the seller with less than his usual margin of profit where such offer for sale is made mainly for some other purpose."

Another said that "Our interpretation of 'loss-leader' would be the sale of standard brand merchandise at less than the prevailing price at other stores. The question of intent enters the problem."

Two others defined the practice in these words:

"We would define it so far as our business is concerned as an extremely deep price cut beyond normal practice which would make it well nigh impossible for a competitor to meet such a situation and still stay in business."

"It stems from an old retail practice of attempting to convert an initial loss into a profit by marking down merchandise lower than would be suggested by normal merchandising practice to a point calculated to attract shoppers whose other purchases of goods are likely to provide adequate compensation. In other words, the practice would be considered distinct from markdowns of damaged goods, end of season stocks, etc., although the term 'Loss Leader' is so loosely used that it is sometimes applied even to the latter."

There were also five other respondents who defined a "loss leader" as a sale at, below or slightly above laid-in cost in order to sell other merchandise. One manufacturer stated it this way:

"The term 'loss-leader' means the continued or intermittent selling at the retail level of a product in general demand at a price below or slightly above the cost to the retailer with the object of inducing customers into the store where they are likely to buy in addition to the loss-leader other merchandise at a price yielding a profit."

A second reply defined a "loss leader", indicated the type of goods subject to "loss-leader" practices, and differentiated between "loss leaders" and other types of sales practices:

"I would define 'loss-leaders' as highly desirable, fast turnover merchandise, in first class condition, offered in the proper season to consumers at prices below a retailer's actual laid-down-cost. It might be further stated that a 'loss-leader', to have the desired motivating effect, must almost of necessity be a widely advertised, widely distributed article, that a consumer would immediately recognize as exceptional value at its greatly reduced price. Such a definition would exclude most of the recognized merchandising practices outlined in paragraph 2, subsection 2, of your letter."

One manufacturer emphasized in his definition the pervasive and continuing aspects of a price reduction required to bring it within the "loss leader" category:

> "We believe that the only definition of a 'loss-leader' is - when merchants of all types sell a staple commodity day in and day out, whether it is advertised or not, at a margin of profit below the required mark-up to enable a merchant to properly do business."

Generally, the manufacturers that attempted to formulate a definition took the position that any price lower than that required to return a normal profit or lower than the prevailing price was a "loss-leader" practice. Those holding other views were in the minority.

(2) How Can a Distinction be Made Between "Loss-Leader" Selling and Other Types of Price Reductions Such as Clearance of Damaged Goods, End-of-Season Sales, Etc.

There were eight replies to this question but most of these did not set out clear-cut criteria for distinguishing between these types of price reduction. One method of approach was mentioned above in connection with the definition of a "loss leader". This reply, by carefully defining the types of goods commonly used as "loss leaders", attempted to eliminate end-of-season sales, the disposal of surplus stock and damaged goods and similar practices, although "widely advertised, widely distributed" articles which were said to be typical "loss-leader" items, are not infrequently found in "clearance" and "end-of-season" sales. Many of the replies said that "loss-leader" selling could be distinguished from the clearance of damaged goods, surplus stocks, end-of-season stocks, etc., without elaboration. These manufacturers felt that it was not possible to confuse these practices with "loss-leader" sales and in some cases enumerated the type of goods which would not be used as "loss leaders". One manufacturer defined the difference in more specific terms:

> "The main distinguishing feature of 'loss-leader' practice as compared to other sales practices you tabulate is that the object of the former is related only to attracting customers so that other 'non-loss-leader' goods may be sold whereas legitimate 'bargain sale practices' are intended to correct a specific condition related to the goods on sale."

On the other hand, one manufacturer felt that it was "almost impossible" to give clear-cut specifications for a "loss leader" which would set it apart from other types of price reduction, and he continued:

> "Variable factors or reasoning permitting the sale of merchandise below recognized prices have to be taken into consideration. There is but a slim difference between the promotion of a special line of merchandise - the elimination of discontinued lines - the liquidation of over-stock - and the presumed 'loss leader' sale."

(3) Types of Goods Most Frequently Used as "Loss Leaders"

Ten manufacturers dealt with the question of the types of goods usually subject to "loss-leader" selling.

Generally they described such goods as well-known merchandise, in good demand, with a high turnover. One described a "loss leader" in this manner:

> "I think it is generally accepted that loss-leaders are used on goods which will attract attention of consumers and bring them into the store."

Another described the "loss leader" as follows:

> "'Loss leader' must necessarily be a well-known product enjoying the goodwill of the public and for which there exists a popular demand."

In another instance the following reply was submitted:

> "To be used advantageously as loss-leaders the goods have to be of such a nature that the low prices are recognized as being low by the prospective customers. Usually this means brand name merchandise which is well-known to the customer."

Other manufacturers summed up the characteristics of products used as "loss leaders" as follows:

> "Therefore, in general, the classes of goods used as 'loss-leaders' are generally those classes of goods wanted by the consumers, and where the consumer has some relative knowledge of comparable value."

> "The classes of goods particularly subject to 'loss-leader' merchandising are those which a) are low priced b) are competitive c) have a low normal margin of profit d) have a high constant demand. Flour, bread and cereals are good examples."

A manufacturer of well-known, branded articles of women's wear limited his reply to his own type of product as follows:

> "In our particular line of business I do not know of any instances where goods are used as 'loss-leaders'. It is true that there are legitimate close-outs, mark-downs and sales of Textile commodities of our type, but these are usually sold by the retailer, as far as we know, for some profit.
>
> We do believe there are times when manufacturers of our line of merchandise do sell some goods at cost, or below because of the necessity to obtain money and reduce inventory, but we do not believe this is 'loss-leader' practice."

(4) <u>Extent to Which Customers are Deceived by "Loss-Leader" Selling</u>

This question was answered by eleven manufacturers. Four manufacturers stated that the customer was not deceived, and two said he was. Two others thought there was a possibility he could be deceived and three said that the "loss-leader" practice was not very successful and in substance suggested that the customer was not deceived.

One manufacturer answered as follows:

> "Purchasers not deceived which is reflected in the diminishing use of this type of merchandising."

Another manufacturer also pointed out that in his opinion purchasers were not deceived by "loss leaders" because "So-called 'loss leaders' are common in practically every store".

One of those replying in the affirmative said:

> "Yes, purchasers may easily be deceived into believing that most other goods sold in the store are also offered at corresponding reductions."

A clothes manufacturer also stated that in his field "loss-leader" selling did deceive the consumer into believing that other items offered for sale were at corresponding reductions since "It is no trick at all to fill a store with cheaper-made merchandise looking like goods of a known standard quality".

One manufacturer expressed the view that the housewife was justified in concluding that stores offering "loss leaders" also generally offered other items at low prices:

> "(4) The best way I can answer question #4 is that I believe that the housewife gets a feeling of confidence by seeing known brands at good prices, and she therefore feels that she can shop with confidence in that store knowing that she is going to get good value. Generally, this is true because most store operators who have the drive and ambition to try to improve their business through price, and price is after all the greatest inducement, can thus convince the consumer that she can buy with confidence in the type of store offering such prices. . . . In no other field, certainly in no field where the volume is as huge as it is in the grocery business, are such minuscule profits found. Therefore, the housewife has the right to believe that merchandise sold in such stores is being sold at a reduction, and her confidence in buying freely in such stores is well justified."

For the most part the replies to this question indicated that the customer was not deceived. The manufacturers who did not think

that customers were deceived were quite definite about it whereas only two of those replying that customers were deceived were equally as definite. The other affirmative replies used such terms as "quite likely" and "incline a customer", which left an impression of indecisiveness with reference to their views.

(5) On What Grounds Should a Distinction be Made Between "Loss-Leader" Selling and Alternative Means of Achieving the Same Result

Six answers were received to this question. One of these said that he did not think "loss-leader selling differs materially from other methods indicated". A second manufacturer termed the other methods of selling as "straight-forward" competition as compared to the loss-leader practice which he described as "deceptive and uneconomic". Two manufacturers described the difference as one of purpose. The first said:

> "The essential characteristic is that the seller is accepting a lower net return because of some motive other than a normal desire to sell the merchandise being offered at loss-leader prices."

The other described the difference as follows:

> "'Loss-leader' selling is different because the retailer does not really wish to increase his volume (and therefore his loss) in the loss-leader, whereas in other selling tactics, the object is really to merchandise the articles affected with advantage ultimately profit wise."

Another attributed the difference to the results:

> "Advertising, employee bonuses and such lures cannot bring the immediate and tremendous results that arise from offering a well-known quality garment at a discount of 10% or 15% or 20%."

Still another thought that the effect on the goods themselves when used as "loss leaders" was the essential difference between "loss leaders" and alternative practices. He said:

> "'Loss-leader' selling differs in that it establishes a practice for one type of promotion which has a detrimental effect on future deals that cannot be sold at the same level."

(6) Are "Loss-Leader" Customers Likely to be Retained?

Two of the nine replies received to the question with reference to the retention of "loss-leader" customers said that such customers would be retained if the other facilities of the outlet were satisfactory to them.

One of them put it this way:

"New customers attracted by 'loss-leader' are likely to be retained if all other things which the consumer compares are satisfactory and attractive to her."

On the other hand, three manufacturers stated that "loss-leader" customers were not retained. One of these commented that in his view new customers were not attracted by "loss leaders" nor were they retained by the continued use of "loss leaders", since "the majority of 'loss leaders' are readily available in all stores, and consumers do not have to go to any particular store to find them".

Three other manufacturers said that in order to retain "loss-leader" customers, it would be necessary to continue using "loss leaders".

Another had this to say:

"Customers attracted by loss-leaders would likely be retained until something new came to the customers' attention to show them they were not getting good value."

(7) Location of Outlets using "Loss Leaders"

Four manufacturers said that "loss leaders" were more frequently used by merchants in downtown or central areas. Typical of this group was the following answer:

"I should think that 'loss leaders' are more commonly used in downtown market areas and that they are used in the metropolitan districts only."

One manufacturer said:

". . . 'loss-leaders' are naturally more commonly used wherever retailers can get most customers into their stores."

This manufacturer went on to say:

"In the last two years, the new development of 'outlying' shopping centres makes it quite possible for stores located in those shopping centres to follow the practice since they have the traffic."

Another manufacturer spoke of the practice in this way:

". . . 'loss leaders' are used under almost all possible conditions and by all types of dealers, small towns, suburban areas and central big city stores but naturally a small operator in a small community has little influence outside of his community. The big city operator has far superior methods of publicity at his command and therefore reaches a much wider area and affects

merchants in many towns."

Three replies cited no particular area where "loss leaders" were more frequently used. One said there was no particular pattern, another said "central and outlying areas", and the third said "loss leaders" "are common in stores in all locations".

One manufacturer summed up the situation in this way:

> "'Loss leaders' are useful wherever a competitive situation exists, or wherever a merchant is desirous of attracting trade. I have seen them in the heart of the city and I have seen them almost at the cross-roads."

Generally this group felt, for one reason or another, that central, downtown or traffic areas featured the use of "loss leaders" to a greater extent than other locations. Some recognized that a change might be under way with the establishment of shopping centres in localities removed from downtown areas.

(8) Relation Between Use of "Loss Leaders" and Type of Outlet

There were five replies from manufacturers who held either that "loss leaders" were not used more commonly by one category of retailer than by another or that all types of retailers used "loss leaders". Another six replies stated that "loss leaders" were more frequently used by large chain and volume outlets. One said:

> "It is our experience that the larger department and chain stores in the downtown areas require loss-leaders more frequently than other categories of retailers in small centres of distribution."

Another said that "loss leaders" are "usually introduced and employed by chain stores or huge retail organizations".

Still another remarked:

> "It has been our observation that 'loss-leaders' are not used by privately owned retail stores, but are used only by larger department stores and/or chain store organizations."

And this manufacturer continued:

> "The purpose for using 'loss-leaders' by these stores is, I believe, two fold. One, to get customers to visit the store to purchase the specific item involved at a bargain price, then browse around in the store and purchase other items. Two, to try to create the impression in the mind of the consumer that all merchandise handled by the store is similarly priced below that of competitive retailers. I personally question their success towards these ends."

The weight here would appear to be slightly in favour of those who believed that larger outlets used "loss leaders" more frequently.

(9) Effect of Competitive "Loss-Leader" Selling by Large Merchandising Organizations

Three of the seven manufacturers replying to this question felt that the competitive use of "loss leaders" by large merchandisers would not be self-defeating. One of these said: "No. Aggressive selling has always paid off". Another said that "loss leaders" would maintain their drawing power as long as the public felt they were getting a bargain. On the other hand, four manufacturers felt that the continued use of the "loss-leader" practice by large distributors in competition would be self-defeating. One of these said:

> "'Loss-leader' selling is defeating its purpose and consequently diminishing."

Another said:

> "We presume that if 'loss leaders' become so prevalent that certain goods at all large merchants were selling below cost, the public would cease to be influenced by the practice.
>
> However, by this time, there would be few small merchants left in practice."

A manufacturer of a grocery product offered the following comment on this point:

> "'Loss-leader' selling has usually been done by large corporate chains and is used for no other purpose than as an attraction to induce people to shop with them. If they all indulge in it the purpose is defeated and the only sufferer is the small retailer who cannot afford to meet that type of competition."

(10) Quantitative Significance of "Loss-Leader" Selling

There were thirteen replies to this question with reference to the quantitative significance of "loss leaders". Only two of these felt that this practice was significant. One of these said that the practice "Is quite wide-spread at most times in our type of products and bread". This company was directly associated with the bread-baking industry. The other return, after describing a "loss leader" "as a nationally known product which is offered at a price which is less than an average dealer's cost, plus a reasonable and necessary margin of profit", went on to say that:

> "If this is the case, in 1952, a fairly wide range of well-known, nationally advertised products have been offered by leading department stores and mail order houses at prices less than those suggested by the manufacturers."

The other eleven replies stated either that their products were not used as "loss leaders" or that the practice was not significant today. However, some were concerned about its potential damage should economic conditions become less buoyant. One of these said:

> "Because of the favourable economic conditions in the last ten years, there has not been to our knowledge, any significant case of 'loss-leader' practice in our industry that could be related as an indication of the extent of the damage that can be caused by such practice."

A similar view was expressed by a manufacturer in another field:

> "We are not aware that it does exist to any substantial degree in the retail drug trade at the moment which does not mean that it will never exist or that its effects are not harmful."

Of one line of products, it was remarked:

> "'Loss-leader' selling on small volume lines like the polish industry is practically non-existent in food and hardware outlets."

One manufacturer after saying that in his particular field "There is little or no so-called 'loss-leader' selling" went on to say:

> "In closing I would like to make it clear that I am against below cost selling as a general rule, although I would not like to see any law prohibiting it."

A further reply to this question said that:

> "Insofar as the full fashioned hosiery industry is concerned, the existing instability of prices resulting from the general depression in this field precludes any possibility of long or even short term commitments on such a basis, particularly when it is considered that the bulk of Canadian production already is being disposed of virtually at cost, leaving little margin if any for such practices."

Another manufacturer said that "price cutting as a normal procedure in the tea trade was more or less limited to mild cuts by self-service types of stores" before the recent enactment of legislation on resale price maintenance. He went on to say, "As far as our business if concerned, it is only since the advent of the legislation referred to that two or three large organizations have featured our products at prices very close to the ordinary grocer's list price. It has not, however, created any great difficulty as yet, because of its infrequency. . . ."

(11) Effect of "Loss-Leader" Selling on Products Used for This Purpose

Some fourteen replies discussed the question of the harm done to a product when it was used as a "loss leader". Most of these, eleven in all, said that the product did suffer when it was used as a "loss leader". Only two said that it did not. Of the eleven replies that took the position that products used as "loss leaders" were hurt, four cited the damage suffered by the product in the opinion of the consumer and the same number referred to the retailer's loss of interest in an item used as a "loss leader". It was not possible to associate the remaining replies with the reactions of either consumers or retailers. One of the two who said that products were not harmed by use as "loss leaders" was quite definite with respect to his views. He wrote as follows:

> "Positively not as far as our experience with . . . is concerned over a period of fifty years."

One opposite view was equally as positive:

> "It is our considered opinion, obtained from experience with loss-leaders over many years, that the general use of loss-leaders tends, in the end, to stifle general competition in any particular line. . . ."

Another had this to say:

> "The 'loss-leader' tends to utterly destroy such brands because when this practice is persisted in other merchants abandon the line as it has become totally unprofitable and the result in many cases has proven disastrous."

One of the manufacturers felt that the nature of the price cut would determine whether any harm had been done. He outlined his views as follows:

> "I think that a good case can be made for the fact that the product may be damaged if it is sold under cost over a period of time. I do not think that such a product, if it is strongly advertised, will be damaged if it is sold at a low markup."

Two other manufacturers also thought that the goods were harmed, but for different reasons; one commented:

> "Such a 'loss-leader' practice may result in the loss of goodwill for the product by the retail trade and eventually the consumer may find it difficult or impossible to purchase the bread in a large number of retail outlets."

The other said:

"Temporarily, sales may boom, but in the long run, a branded product loses something in the eyes of the consuming public when it is consistently offered at greatly reduced prices."

Finally, a manufacturer of a line of grocery products replied to this question as follows:

"We should not like to venture an opinion concerning the damage that the use of 'loss leaders' has done to any product. We do know that the non-advertising merchant does not like the feature sales used by the advertising merchants, since he has no means of counteracting them properly and is probably prone to classify any feature sale as a 'loss leader'."

(12) Use of "Loss Leaders" and Their Effect on Independents and the Concentration of Control in Merchandising

Four manufacturers said that the use of "loss leaders" did not result in the concentration of merchandising in fewer hands nor limit the opportunities of independent firms while five other manufacturers thought that this did happen. Two others replied in general terms. One of those who stated that the practice did not result in concentration of control confined his observations to his own industry and appeared to have in mind the terms on which he sold his goods to the retail trade rather than the prices at which his goods were sold by retailers:

"All goods offered at less than regular markup are offered to the whole trade and therefore with respect to our goods the loss-leader practice does not result in a concentration of merchandise in fewer hands."

The above reply originated with a clothing manufacturer but his views were not shared by another manufacturer in the same field, who wrote as follows:

"The use of 'loss-leader' practice does tend to concentrate merchandising in fewer hands and it also tends to reduce the quality of goods available for the public by the simple process of destroying the only measure of quality."

Another manufacturer had this to say:

". . . we believe that 'loss-leader' selling in chain and department stores tends to force the small merchant out of business. The small independent store with small volume has to sell all or at least a wide range of its products at a profit whereas large volume chain can easily afford to have one or more items continually selling at a loss so long as the volume in other profit makers is retained."

Similar views were expressed by another manufacturer:

"We would say from a long experience that if the practice were indulged in frequently we would not only suffer in good will amongst the mass of the independent grocery trade who were still the backbone of a business such as ours, but the effect could well be demoralizing upon that independent grocery trade who have not the resources to meet that type of competition."

The opposite view was quite strongly stated by yet another manufacturer:

"As strongly, as definitely, and as positively as I can say it, my feeling is that low-cost selling such as I have been discussing does not result in the concentration of merchandise in fewer hands."

Finally, one manufacturer commented on "loss-leader" selling in his dual capacity as consumer and manufacturer as follows:

"I would like to comment on 'loss leader' selling from my standpoint as a consumer, and as a maker of . . . .

From the consumer's point of view 'loss-leader' selling is a form of advertising. The customer is expected to buy more than the 'loss leaders', and seemingly does so or this method of selling would cease.

Other forms of advertising such as newspaper, handbills, radio, premiums, prizes and so on, designed to bring the consumer to the seller's shop, may be more orthodox but are not necessarily more ethical.

In an extreme case, if the merchant chooses to give away certain merchandise why should the government intervene? His competitor may not like it but the consumer benefits, even if temporarily.

If 'loss-leader' selling is economically sound both the consumer and the merchant profit. If unsound only the merchant loses.

As a maker of . . ., I am concerned more with my customer's credit standing than with his selling methods. If his sales policy is sound his credit standing improves. If unsound it is reflected soon enough in his rating.

The fact that he uses the 'loss-leader' method of selling would in itself have no influence on his credit standing with me.

All of us who believe and practice capitalism, the profit and loss system, private enterprise or whatever we may name it, should be prepared to fight our own battles in the market places and only go to the government for help where the broadest principles are concerned.

In short, I see nothing in the 'loss leader' question which should have the slightest interest to government at any level."

B. Summary of Replies from Trade Associations to the Questionnaire on "Loss Leaders" of November 4, 1952

There were twenty-two replies from trade associations to the questionnaire on "loss leaders". Nine of these did not answer any of the questions specifically, seven covered the questionnaire in detail; the remaining six answered, at the most, no more than four questions and averaged between two and three questions each.

(1) Definition of a "Loss Leader" as Submitted by Trade Associations

All the definitions submitted by the trade associations, with one exception, agreed on the central feature of a "loss-leader" sale, viz., an article sold at something below the "normal" price or below a price that would yield the "regular" mark-up for the product in question. In addition, a few replies added supplementary qualifications. One felt that the "intent" was an important element of the definition and described a "loss leader" as follows:

"Thus we would define a loss leader as merchandise sold at a price which is intended by the seller to convey to the purchaser or potential purchaser that it is a price lower than the then prevalent and generally established competitive price."

Another defined the practice in these words:

"A 'Loss Leader' is a product offered for sale at substantially less than the seller's normal mark-up over his cost, primarily for some motive other than the sale of the particular product involved."

The purpose for which the goods were purchased was included in a further definition; this definition was also the only one to suggest that the distinguishing feature of a "loss leader" was its sale at less than "cost".

"Our definition of a 'loss-leader' item is an article which has been bought with the intention of selling it at less than cost."

The other definitions confined themselves to describing a "loss leader" as a product sold at a price which did not cover cost plus operating expenses or at a price which did not represent a "normal" rate of return. One of these also associated itself with the definition contained in the MacQuarrie Report.

A number of trade associations pointed out that they found it impossible to define in reasonably precise terms what constituted "loss-leader" selling. A typical statement of the difficulties involved is contained in the following extract from the submission of an

association of retailers:

> "Our Executive Committee is of the opinion that it is not practical for the . . . to attempt to produce a definition as to what constitutes a loss leader. In fact, the Committee feels that the replies we have received do not indicate that a satisfactory definition could be provided which would even serve as an accepted guide for the trade alone.
>
> I am, therefore, instructed to say that the Executive Committee . . . is of the considered opinion that to attempt to produce a definition of a loss leader for legal purposes would be both difficult and dangerous. It would be difficult because of the conflicting opinions existing on the subject, and dangerous because it is hard to conceive of a legal definition that would not affect many quite legitimate promotional or distress sales practices such as those mentioned in your letter. Loss leader legislation, our Executive Committee believes, is a desperate remedy justified only in desperate circumstances."

Another association after pointing out the difficulties of identifying the practice of "loss-leader" selling commented:

> "To put it quite frankly, we are all of the opinion that no practice readily identifiable as "loss-leader" selling, if we correctly understand the implications of the term, has ever had a foothold in Canadian business."

(2) <u>How Can a Distinction be Made Between "Loss-Leader" Selling and Other Types of Price Reduction Such as Clearance of Damaged Goods, End-of-Season Sales, Etc.</u>

Replies to the question with reference to the possibility of distinguishing between price reductions associated with "loss leaders" and those associated with other special sales practices in the main suggested that the type of goods offered for sale should be an indication of the nature of the sale. "Loss-leader" sales generally involved "nationally advertised products in good supply of recognized quality", "usually articles of well-established retail value, and by that token standard merchandise, and not usually surplus at the end of the season", or "most conspicuous in nationally advertised brands of goods in steady demands, not subject to deterioration or seasonal fluctuations in demand". Another return summed up the difference in this manner:

> "Loss-leader merchandise is a misrepresentation of the true facts. In our opinion this is the main difference between 'Loss-leader selling' and the more orthodox 'special sales' methods commonly employed to attract business."

In differentiating between "loss-leader" selling and the various special merchandising practices referred to in question 2, one association of retailers had the following comments:

"'Loss Leadering' is apparent,

When current goods are offered for sale or sold at a price, which is at or about cost, and the price is used to entice or persuade consumers to purchase from other than their usual source of supply, because,

(1) It allows inadequate gross margin to cover overhead and in some instances shows a gross loss before overhead.

(2) It tends to give the consumer the wrong impression of the value of the item. The inference, here created, is that since the advertisers' price is substantially lower than the accepted price, it should follow that all his other prices would be similarly lower than his competitors.

This inference is the key of 'Loss Leader' psychology and we shall again refer to it later in this submission.

(3) When a retailer issues coupons inviting customers to accept a rebate in the sum of the face value of the coupon, upon the purchase of merchandising from his store only. When such rebate constitutes the major part of the 'Gross Margin' and/or brings the price of the whole order or any item therein to cost or below. . . .

As a general rule, when goods are sold because of being damaged, end of the season stocks or surplus goods, ads so designate and the public are consequently aware of why a particular store is selling at bargain prices. These goods are usually sold at 'Sales' and clean up quickly. On the other hand, the trend on 'Loss Leader' items is that they turn up regularly throughout the year and more often than not gravitate to regular selling prices."

This same association later in its submission pointed out:

"We are in a period in merchandising when the consumer is extremely price conscious. . . . Many consumers have been known to check prices, ad against ad and shop for their food accordingly."

(3) Types of Goods Used as "Loss Leaders"

All ten replies to this question were in agreement with respect to the type of goods commonly used as "loss leaders". They were described, for the most part, as branded, nationally advertised products. One described such articles as:

"Goods (particularly those having manufacturers' catalogue numbers) which have been sold in large volume through a large number of retail dealers at a standard price."

Another said:

> "Obviously 'Loss Leaders' are goods which are in wide demand and are readily accepted; they almost invariably are well-known brands normally selling at standard prices."

Specifically bread, electric irons, kettles, and floor polishers, sterling silver flatware and plated flatware were cited as types of "loss-leader" goods. One other trade association described the "loss leader" in these terms:

> "Staple merchandise whose regular price is well known to the consumer. It naturally follows that branded merchandise and nationally advertised lines are popular Loss Leaders."

(4) <u>Extent to Which Customers are Deceived by "Loss-Leader" Selling</u>

Two of the trade associations said that they believed customers were deceived into thinking that other goods were being offered as cheaply as "loss leaders" in establishments where such practices were employed. Three other replies seemed to feel that the "loss-leader" practice tended to convey the impression that other goods were offered at similar reductions. One of these said that customers "could possibly be lulled into believing that chain groceterias sell all products cheaper". One other return answered in this way:

> "The shopper may have the impression that all goods in the store are lower than in other stores."

In contrast to these views, however, a trade association reported on behalf of one of its members the following view:

> "Regarding Question 4, it is our personal opinion that 'loss-leaders' rather than gain business for a store, shake the confidence of the public in that store."

(5) <u>On What Grounds Should a Distinction be Made Between "Loss-Leader" Selling and Alternative Means of Achieving the Same Result</u>

The problem of differentiating in principle between "loss-leader" selling and alternative means of increasing sales volume apparently presented major difficulties to all groups replying to the questionnaire. Seven trade associations dealt with this question more or less directly and in more or less detail.

One of these suggested that sales volume could be increased by means that did not involve either placing major emphasis on price or engaging in "aggressive" selling methods.

> "'Loss-leader' selling fails of its purpose if it does not permanently build store traffic. Yet there are successful merchants who, while in a broad way meeting competition, have

built their business on quality, cleanliness, and service, with price to the consumer a factor, but not the prime factor."

In another case it was pointed out that "loss-leader" selling was not a substitute for advertising, although no opinion was expressed on the broad issue raised in the question.

"'Loss-leader' selling of bread by chain groceterias is not a substitute for advertising, inasmuch as those that use it are also the largest advertisers and spend considerable sums in advertising the fact that their bread is being sold cheaply."

It was suggested in one case that the purpose of "loss-leader" selling, particularly when prices "go so very low as to be below their actual invoice price" was not to increase sales but to "use the 'loss leader' simply as a sort of threat to their competitors" and to achieve this end stores "make it difficult for the customer to buy" the "loss leader".

One trade association stated that it was their view that "loss leaders" were used to create the impression that most other articles sold by the firm using the "loss leader" were also in the "bargain" category and that it was this attempt to mislead the consumer that distinguished "loss-leader" selling from other techniques of sales promotion.

A different view of the distinction between "loss-leader" selling and other means of increasing sales is given in the following quotation from the submission of a trade association:

"Tous ces moyens sont normaux parce qu'ils ont en vue le bénéfice possible, tandis que le 'loss-leader' est une antithèse au but normal du commerce parce qu'il sacrifie d'avance tout bénéfice."

The distinction, in another case, was said to reside in the effect on the market situation: "genuine promotional activities" were said to result in "continued market stimulation", whilst "loss-leader" selling was said to "disrupt normal marketing" by temporarily drawing purchasers from one general shopping area to another, "thereby disrupting the local merchant's business".

Finally, the secretary of one trade association reported as follows:

"The special sales provisions listed are not considered in the same category as 'Loss-Leader' selling. However, no exhaustive analysis of the differences were given me. I believe retailers find it difficult to put the differences in actual words. Here again I find them coming back to the matter of the nationally known branded lines and the intent behind their use as loss leaders."

(6) Are "Loss-Leader" Customers Likely to be Retained?

Most replies either felt that "loss-leader" customers would not be retained or that the continued use of "loss leaders" would be necessary, with other factors being satisfactory. In this connection one said:

> "A merchant who deliberately cultivates a reputation for operating a 'cut-rate' store will have difficulty retaining business on any other basis."

One put it this way:

> "It is very doubtful whether 'loss-leader' customers are likely to be retained. This would depend on how long the merchandiser is able to continue to have such items on his shelves."

A further reply felt that "loss-leader" tactics by chain stores would not result in a net gain of customers from other chains but that customers would be attracted and retained by the chains from the independents.

(7) Location of Outlets Using "Loss Leaders"

Generally speaking, the trade associations replied that "loss-leader" practices were more common in downtown areas and places of concentrated population. One of these said, however, that decentralization was taking place and that in a depression the practice could well be country-wide. One of the six replies received to this question did not feel that "loss leaders" were more commonly used in downtown areas.

(8) Relation Between Use of "Loss Leaders" and Type of Outlet

There were eight replies with reference to the type of outlet using "loss leaders" most frequently. One said there were no special classes or categories of merchants who used "loss leaders". Two cited grocery chains and another large department stores, cut-rate drug stores, appliance dealers, and chain stores. One association stated that "loss leaders" were used in all areas where large retail stores were found, but added "Its use, however, is not confined to large stores." Two others used more general terms in their description. One described these outlets as "difficult to collect accounts from". The other said "loss leaders" "were usually employed by retailers who attempt to cash in on the promotional efforts of others".

Finally one trade association pointed out that "loss leaders" could be used more readily by the merchant handling many lines than by the merchant handling only a few. This report continued:

"Subject to this, it cannot be said that the practice is more prevalent in one branch of trade than in another."

(9) Effect of Competitive "Loss-Leader" Selling by Large Merchandising Organizations

There were seven replies to the question relating to the effects of "loss-leader" selling when used competitively by large distributors. One reply felt that such tactics were not self-defeating. Another said that: "The permanent drawing power of the loss-leader practice would not necessarily be in doubt. Other factors, including advertising and other promotional activities, along with the general reputation for quality and style would govern the situation." The remaining five replies thought that the practice would be self-defeating. One added that not only would it be self-defeating "but in the process extreme harm is done to the manufacturer of the products used and his distributors and dealers".

(10) Quantitative Significance of "Loss-Leader" Selling

The majority of those replying to this question did not feel that "loss-leader" selling was a very serious factor today. Nine answers were received to this question; three of these expressed concern about the practice of "loss-leader" selling, of which two were connected with the manufacture or distribution of bread. One estimated that the practice with reference to bread was as high as 60 per cent to 70 per cent in some thickly populated metropolitan areas. A trade association in another industry estimated that 10 per cent of retailers have used some form of price cutting "necessitating a much larger percentage adopting the practice to meet a competitive situation". One return commented on the significance of this practice as follows:

> "Loss-leader selling has not been significant in Canada up to the present time because of the controls which the manufacturers had on retail prices. It is suggested that the American experience should be examined. It is also suggested that under the present legislation, the practice of Loss-Leader selling will not arise until the present trend of business conditions is reversed."

Another return referred in similar vein to this potential problem:

> "It remains to add that while the 'Loss-Leader' evil may not be serious in time of inflation such as the present, it is bound to be serious again, in the event of any trade recession."

Two further replies stated that "loss leaders" were not used by the people with whom they were associated. One of these said: "We find that none of the local merchants carry out this practice. On discussing the matter with them, they admit the folly of it". The other return stated that: "All of the questions, particularly those referring to 'loss-leaders' do not apply to our industry too severely except in

the case of department stores, on which our association has not much information".

The following view was expressed by another association:

> "While I have no use personally for 'loss leaders' as a sales stimulant, nor would I resort to the use of the same, I cannot see any reason why the practice of using same should be denied anyone."

Finally, an association of retailers pointed out that they were unable to give any firm estimate of the extent of "loss-leader" selling. They also pointed out certain factors which, in their view, had limited the extent of the use of "loss leaders":

> "Continued rise in costs of operation have been a deterrent. The desire on the part of certain large organizations to avoid criticism which would follow conspicuous below-cost selling - that must be conspicuous to accomplish its purpose - has perhaps held the practice in check to some degree. We have little confidence that the Criminal Code Amendment would be effective in practise."

(11) Effect of "Loss-Leader" Selling on Products Used for This Purpose

Nearly all of the replies to this question felt that the reputation of the products suffered. One said that the standing of reputable bread companies was damaged when the customer compared the spread between the "chain store loaf" and the "delivered loaf". Another referring to the same product said:

> "We believe that the use of bread as a loss leader does tend to damage permanently the reputation of not only the bread as a food but of the bakers who make it."

In this instance the reply referred to consumer reaction. Two other replies were thinking of the harm which was done from the retailer's point of view:

> "Widespread and persistent selling of branded items at little or no profit would result in smaller merchants not carrying or failing to display such goods . . . but the evidence as far as we can determine, is not conclusive."

The second return, while emphasizing the damage resulting from the non-co-operation of retailers, also referred to the effect of "loss-leader" selling on consumers:

> "The use of products as 'Loss Leaders' tends to curtail the market because many dealers refuse to handle them. . . .

The advertising of products at cut prices or as 'Loss Leaders' tends to create the suspicion with the public that something may be wrong with the product."

Two returns cited the manufacturer's reaction to "loss-leader" practices. One said that this practice appeared to damage the reputation of brand names so that the customer began to regard them as cheap goods. The other said that one of the victims of "loss-leader" selling was "the manufacturer of branded and nationally advertised lines, whose merchandise becomes unattractive to the retail trade because of continued price cutting and who eventually finds his brand destroyed".

(12) "Loss Leaders" and Their Effect on Independents and the Concentration of Control in Merchandising

About seven of the replies, including one which quoted the MacQuarrie Report, were convinced that "loss-leader" selling contributed to concentration and was detrimental to independents. Only one reply took a more general approach. This return said that it was impossible to attribute the increasing success of certain categories of retailers only to the use of "loss leaders". They felt that other factors were involved.

One of the seven referred to above said that: "The independent retailer who is financially unable to meet this unfair type of competition from larger distributors" was victimized by "loss leaders".

Others replied as follows:

"Over the years, the use of bread as a loss-leader, principally by chain groceterias is certainly concentrating both the manufacture and distribution of bread into fewer and fewer hands. There are fewer independent bakers in Canada each succeeding year, and this in a country whose population is expanding and in a country that is growing in every sense."

"The use of products as 'Loss Leaders' has caused many good retailers to stop handling them, thus concentrating sales in the hands of fewer outlets and channelling a disproportionate share of the total value through retailers who make it a standard practice to cash in on the efforts of others."

"We believe that continuous 'loss-leader' selling is very injurious to the manufacturer, and prevents him from making sales through independent firms who usually do business on an honest basis."

"It seems obvious to us that if very large department stores and mail order houses were able consistently to sell a number of brands and lines of goods at prices which could not

be matched by smaller and widely scattered merchants there would tend to be concentration of business in a few hands and a few cities."

C. Summary of Replies from Chain Stores to the Questionnaire on "Loss Leaders" of November 4, 1952

Ten replies were received from chain stores. Six of these were detailed returns, whilst each of the other four dealt with not more than two of the questions.

(1) Definition of a "Loss Leader" as Submitted by Chain Stores

The chain stores, for the most part, defined a "loss leader" as the sale of a product below landed cost which they interpreted to mean net invoice cost, plus freight and duty, if any. One chain store described a "loss leader" as "any item which was sold at a price which was considerably below the regular mark-up reasonably associated with the particular item". One other firm felt that each article sold should bear a proportionate part of the overhead and labour costs. Presumably, goods which were sold at a price which did not include an appropriate share of these costs would be regarded as "loss leaders".

One chain store dealt with the matter of definition at somewhat greater length.

> "We do not attempt to define what a "loss Leader" is in our organization, but I think we could safely say that any item or product sold below the laid-down cost would undoubtedly fall in this category. It is when you get beyond that point that the question becomes extremely complicated and practically impossible to deal with, such as thinking in terms of adding to the laid-down cost sufficient mark-up to take care of the handling or services rendered in selling a product or products.
>
> . . . a low selling-price is not the only method of initiating the practice of Loss-Leader selling, although the vast majority of merchants and others who complain about Loss-Leader selling ignore this fact.
>
> It was because of failure to recognize this and accept it that Milk Boards were set up all over Canada and U.S. some years ago. In most cases this resulted in retail stores being obliged to sell fresh milk at a higher price than was necessary, while home delivery distributors actually cut the price by supplying additional costly services.
>
> There are literally scores - if not hundreds - of ways of cutting a selling price below a specified amount without reducing the selling price. . . . it would be impossible to enumerate all of them, because new ones develop nearly every day in some

form or another. From a practicable standpoint it hardly seems possible to attempt to prevent what might be termed 'loss-leader' selling by dealing with price alone, without at the same time prohibiting the use of these other practices, (premiums, free delivery, credit, etc.)."

(2) How Can a Distinction be Made Between "Loss-Leader" Selling and Other Types of Price Reduction Such as Clearance of Damaged Goods, End-of-Season Sales, Etc.

Few of the replies to this question offered clear-cut criteria for distinguishing between "loss-leader" selling and the other types of price reduction mentioned. One chain store felt that the chief factor distinguishing price reductions associated with "loss-leader" selling from the other types mentioned would lie in the manner in which the merchandise was advertised. Regularity in such advertising would imply "sharp practices". One other answer suggested that "loss-leader" selling could be distinguished if the price showed a sharp reduction from regular prices. This same chain store had described a "loss leader" as an item which was sold at a price considerably below the regular mark-up. This reply does not, however, satisfactorily differentiate between "loss leaders" and the disposal of out-of-season goods or the clearance of discontinued lines, both of which may be made at sharp reductions in price.

In the case of another multiple-store firm it was stated that "loss-leader" selling could be distinguished from such merchandising practices as the clearance of damaged goods, surplus stocks and end-of-season stocks without difficulty "because a 'loss-leader', in order to be of any worth in producing additional volume - which is normally what it is used for - would have to be a nationally advertised item which was being sold for less than normally sold, so that the average customer would realize as soon as they saw this item that it was being sold for a less price. . . .".

Referring to one-cent sales and price reductions on new goods to introduce them to the market, this same store group commented, "these . . . are definitely 'loss-leaders'."

Finally, with reference to price differences resting upon different methods of marketing, this firm remarked, ". . . super-markets, because of their very low cost to sell, and usually due to the fact that they do not occupy high-priced real estate, can sell our merchandise . . . at a less price than we sell, because they still make their profit on their own type of merchandise. Here again is where the recent law* is at fault, because it permits this class of competition to sell much cheaper due to cheaper overhead costs, but does not take into consideration the taxes paid by the legitimate people who occupy the higher-priced locations in the city."

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* This apparently is a reference to the legislation prohibiting resale price maintenance. Director

Finally, one chain store suggested that there was "no similarity" between "loss-leader" selling and the other merchandising practices referred to in question 2, with the exception of the disposal of surplus stocks. On this point the writer commented:

> "The sale of surplus stocks at less than cost or as a 'loss-leader' is a very debatable point as first it must be determined what constitutes a surplus, as it follows that the promotional activity is the largest factor to merchants doing the same volume of business and the same quantity on hand of a given item could, in one case, be a 'distress' and in the other instance, considered normal."

(3) Types of Goods Most Frequently Used as "Loss Leaders"

The chain stores replying to the questionnaire did not identify any particular category of goods as "loss leaders". They did, however, describe the typical "loss-leader" item as a nationally advertised product well known to the consumer. One chain store summed up the characteristics of a "loss leader" in these words: "a highly advertised product where the normal price is well known to the consumer and the product is distributed by many retailers". Only one firm in this group felt that all categories of goods were about equally subject to use as "loss leaders".

(4) Extent to Which Customers are Deceived by "Loss-Leader" Selling

Two chain stores did not feel that customers were deceived by "loss-leader" selling into believing that other merchandise was being offered at similar low prices. One of these felt, however, that even if customers were not led to believe that most other goods sold in the store were offered at price reductions corresponding to that on the "loss-leader" item, the "loss-leader" practice would still be effective in increasing sales.

> "I do not think the people are deceived at all by 'loss-leaders' into believing that other goods in the store are sold at corresponding reductions. The use of 'loss-leaders' by those people who do use them is simply for the purpose of getting customers into their stores. After all, traffic is what makes business, and if you can get people into your store to buy your 'loss-leaders', naturally they will shop."

The other multiple-unit store reporting that customers were not deceived by "loss leaders" into believing that other items were offered at corresponding reductions commented:

> ". . . the proof of this is the habit of all shoppers to go from one store to another and assure themselves of the lowest possible prices."

Two other replies in this group stated that it was their view that "loss leaders" were used to convey the idea that other prices were correspondingly low; in one of these cases it was thought that this end was successfully achieved; in the other, no opinion was expressed as to the degree of success that such merchandising methods enjoyed in practice.

One chain store thought that customers might be deceived temporarily but added:

> ". . . we do not feel there is any lasting advantage in that they soon find out that most other goods sold in the store are not offered at corresponding reductions."

Finally, it was the opinion of one respondent that "loss leaders" were "sometimes" misleading to the consumer.

(5) On What Grounds Should a Distinction be Made Between "Loss-Leader" Selling and Alternative Means of Achieving the Same Result

Three of those replying to this question said that the main distinguishing feature of "loss-leader" selling was its reliance on the "price only" appeal where the customer was able to measure the actual saving he was enjoying on nationally advertised brands. The other promotional measures referred to were less effective in as much as they made a less direct and forceful appeal to the consumer. One chain store said that the difference lay in the lack of participation by the manufacturer in the promotional costs. Other methods than "loss-leader" selling generally involved the manufacturer in sharing or absorbing the costs.

One further return answered this question as follows:

> "The same difference as used in 'medicine man' selling - high pressure type selling - i.e., with the idea to sell merchandise without thought as to the need, the usefulness of the product to the customer, against a straightforward presentation of the goods for sale, featuring merit of the article along with good price."

(6) Are "Loss-Leader" Customers Retained?

For the most part it was felt that "loss-leader" selling would not in itself retain customers permanently for the outlet using such methods. The consensus was that other merchandising factors would have to be satisfactory. One chain store pointed out that:

> ". . . the continued use of loss leaders would be definitely necessary, as the use of loss leaders are to make up for some things that they lack, or due to the wrong location of a store or poor business management that makes the use of loss leaders necessary."

Finally, a multiple-unit variety firm commented:

> "Now, it may be that we are a little bit old-fashioned in our thinking, but it has always been our opinion that customers attracted by 'Loss Leaders' were not permanent customers."

(7) Location of Outlets Using "Loss Leaders"

Four replies were received to this question; two of these stated that "loss leaders" were used as frequently in the outlying areas as in the downtown market areas. A third reply stated that merchants in downtown areas more commonly resorted to "loss-leader" selling and went on to say:

> "The congested downtown locations, which are now in some cases out-dated owing to parking conditions, etc., naturally necessitate the use of some means of attracting customers."

A fourth multiple-store firm felt that location was not a significant factor in determining whether or not "loss-leader" merchandising methods were employed. The writer said:

> "In my opinion 'loss-leaders' are used mostly by the poor merchants, who are desirous of pulling people into their stores. In other words, as far as I know there are very few 'loss-leaders' used by the stable merchants of Canada."

(8) Relation Between Use of "Loss Leaders" and Type of Outlet

Two replies cited grocery retailers as being the category of retailer using "loss leaders" most frequently. One of these replies referred to grocery retailers generally whilst the other referred to grocery chains for the following reason:

> "With the loss of personal service in grocery chains, we would believe, generally speaking, that this group would represent the greatest users of loss leaders."

One chain store stated that "loss leaders" were "formerly used to a large degree" by department stores, grocery stores and drug stores. The reply continued, "the two main categories that we maintain will use this system, are those that are financially very strong or those who are near bankruptcy."

A multiple-unit store in the ladies' apparel field stated that although in their field the "average store" did not employ the "loss-leader" practice, it was the writer's opinion that "loss leaders" were most prevalent in department stores, supermarkets and drug stores "who handle a very large percentage of nationally advertised products."

A further reply suggested that "loss leaders" were employed by a single category of retailers, which, however, would cut

across most fields of merchandising.

> "I certainly do believe that they are employed mostly by one category of retailers, who could, for the most part, be classified as the irregulars or fly-by-night types."

Finally, one multiple-store firm felt that "loss leaders" could not be "specifically identified with one category of retailer."

(9) Effect of Competitive "Loss-Leader" Selling by Large Merchandising Organizations

Two multiple-store groups replied, without elaboration, that competitive "loss-leader" selling by large organizations would be self-defeating. Two others expressed the same view with qualifications.

> "This practice tends to be clearly self-defeating on a range of products used when the general competitive price has been forced to a non-profitable level."

> "It is our opinion that the practice of 'loss-leader' selling cannot be sustained indefinitely because of the cost factors involved."

And finally, one firm left the matter open, to be determined by the merchandising policy of the store:

> ". . . as long as the store is merchandised properly 'loss-leaders' certainly should not prove to be self-defeating; but if the store is not properly merchandised and properly run, these 'loss-leaders' would be self-defeating because unless large quantities of profit-making merchandise are sold in connection with the 'loss-leaders', naturally the merchant could not stay in business."

(10) Quantitative Significance of "Loss-Leader" Selling

Few of the multiple-unit stores replying to the questionnaire felt that they could provide a quantitative estimate of the significance of "loss-leader" selling in their merchandising fields.

One variety chain stated, "'Loss-leader' selling in our particular sphere of distribution is insignificant". Its absence was said to be due to the narrow mark-up resulting from strong competition. Two other multiple-unit stores in the same field also reported the absence of "loss-leader" selling, although both stated that the closing out of seasonal merchandise, the disposal of damaged and of slow-selling merchandise, often at cost or less, were essential in their operations.

Two replies were received from firms in the grocery field. Their remarks follow:

> "It would be very difficult to give any quantitative estimate regarding the significance of 'loss-leader' practices. However, in the retail food market industry, particularly in an operation such as ours which is geared for rapid turnover on a narrow margin of profit, there is little leeway for any drastic price cutting."

> ". . . the sale of an item below laid-down cost is obviously a Loss Leader, but we do not believe that that practice is being indulged in to any appreciable extent in this area [Toronto] at this time."

(11) Effect of "Loss-Leader" Selling on Products Used For This Purpose

The effects of "loss-leader" selling on the market for the product were discussed by only four chain-store firms. Two of these did not feel that the product suffered any serious damage. In this connection one said: "The use of any item as a 'loss-leader' usually curtails the market for it, but there is no evidence that the reputation of the article is damaged." The second reply supported this view in the following words: "We do not think that the reputation of products used as 'loss-leaders' suffer any real damage." They did feel that the use of a product as a "loss leader" might result in a temporary discontinuance by some merchants, and for the most part appeared to relate any damage that did occur to the retailer's reaction to the price reduction by a competitor. The other two replies seemed to feel that "loss-leader" selling was detrimental to the products so used. One of these said:

> "Many radio and appliance lines have disappeared from the market on account of poor selling practices. We believe loss-leaders are one of the poor selling practices."

This reply came from a source that retailed such products. The second reply had this to say:

> "I do believe that the use of 'loss-leaders' will damage a reputation with consumers -- not as to product; but if we start to reduce standard or nationally known merchandise, there will always be a tendency on the part of the customers to wait and see if it can be bought cheaper."

(12) Use of "Loss Leaders" and Their Effect on Independents and the Concentration of Control in Merchandising

Two multiple-unit firms (one in the household electric appliance field and one in the drug store field) felt that the extensive use of "loss leaders" would result in the concentration of merchandising in the hands of the larger firms. One of them said:

"The net result of this practice when carried to vicious extremes, such as in depression was that a few distributive outlets acquired the total volume on certain individual products."

Two variety chains stated that "loss-leader" selling did not, in their opinion, restrict the opportunities of independent retailers. In one case the following comment was added:

"In my opinion 'loss-leaders' are not used to any extent at all by the outstanding recognized retailers; in fact, just the opposite is the case. There are more 'loss-leaders' used by independents than the larger corporations."

Finally, one firm in the food field stated:

"We do not believe that 'loss-leader' selling results in the concentration of merchandising in fewer hands or limits the opportunities of independent firms any more than the opening of a newer, larger retail outlet with better facilities and conveniences to the buying public."

D. Summary of the Replies to the Questionnaire on "Loss Leaders" of November 4, 1952, received from Department Stores

A total of ten replies was received from this retail group, which included stores of national as well as those of local and regional importance. Six of these organizations forwarded replies covering most of the questions listed in the questionnaire in more or less detail, and one furnished a general statement of its views covering many of the points raised. Of the remaining three, one intimated that the firm concerned was unable to provide any helpful details, while the other two advised that their viewpoints would be consolidated in the general statement to be presented by the trade association of which they were members. Both of these replies did, however, include comments relative to the definition of a "loss leader" and these will be incorporated in the following summary.

(1) Definitions of the Term "Loss Leader"

Eight replies were received which dealt with one aspect or another of the problem of defining "loss leaders".

Two of the replies stated that difficulties were involved in defining the term and one of these set out the factor that, in its view, rendered definition impracticable:

"We also believe it is practically impossible to define 'loss leaders' owing to the different classes of retail trade, and the differences in operating costs of each kind of business and services."

In four cases a "loss leader" was defined as any item offered for sale at a price below its "landed cost" to the retailer. The following typifies this approach:

> "The term 'loss leader' as understood by our firm is an item put on sale at a retail price of less than 'landed cost'. 'Landed cost' is defined by us as the manufacturer's cost plus sales and export tax, if any, plus transportation costs."

One of the above-mentioned four replies also noted that the expression has little current meaning:

> "The term 'loss leader' in the experience of our organization was a term used during the thirties primarily by food operators, grocery stores, and the like, who advertised one or more grocery items at a price below their laid-down cost in the store. . . .
>
> We do not seem to have heard this 'loss-leader' phrase used in merchandising in the past number of years."

Two further replies defined a "loss leader" in relation to "normal" selling prices. One of these, after stressing the vagueness of, and the number of "facets" to the expression, added:

> "In this case, I would suggest it to be any article which we wish to sell at a reduced price, i.e., at a price below our normal profit mark up. . . ."

The other stated:

> "There being no margin for the retailer to lower generally accepted prices for national brands, any advertised substantial reduction from these prices exceeds the small margin of possible profit and is to some extent a 'loss-leader".
>
> In the above, we are speaking of general department store merchandise, not of course including groceries."

(2) How Can a Distinction be Made Between "Loss-Leader" Selling and Other Types of Price Reduction Such as Clearance of Damaged Goods and Surplus Stock, End-of-Season Sales, and the Like

Six firms replied to this question and, here again, the diversity of opinion is noteworthy.

One writer stated that it was difficult to specify clear-cut, objective distinguishing features, remarking:

> "To one who is in a recognized retail business it would be quite easy to distinguish the practices of clearing damaged goods,

etc. . . . How this could be recognized by one who is not accustomed to the average practices of retailing would be difficult to say."

Another also suggested that some knowledge of selling practices in each field of merchandising would be necessary to one attempting to distinguish "loss leaders" from other types of price reduction.

"The easiest way to distinguish Loss Leaders is when these articles are sold at a reduced profit mark up during the best season for such goods . . . Contrariwise, during clearance times, i.e. January and February, July and August, anything and everything goes and the term Loss Leader is non-existent."

This distinguishing feature was also noted by another writer who added:

"Timing would differentiate between goods being cleared and 'loss leaders'."

A further reply stated:

"In our firm the term 'loss leader' is distinguished from other merchandising practices as clearances, etc., by precisely what the name implies. 'An item put on sale at a loss as a leading item in a promotion'."

The final reply in this group indicated that the method of advertising is the only way of distinguishing "damaged goods, surplus stocks, etc." from "loss leaders", adding that "Merchants usually describe these goods as shop-soiled, overstocks, or left-overs".

(3) Types of Goods Most Frequently Used as "Loss Leaders"

Seven replies dealt specifically with this issue and, of these, three mentioned particular classes of merchandise as being prone to use as "loss leaders". Food items were mentioned twice and electric appliances once. Another firm stated, however:

". . . we do not believe that there are any certain types of goods that are particularly subject to the use of 'loss-leaders'."

Six replies defined some of the characteristics of a commodity which make it particularly suitable for use as a "loss leader". Here there was a broad measure of agreement in the replies, the essential features being: public recognition of the normal price or price zone of the product, that it should be widely advertised, and that it should either be branded or be a staple item of known value. In addition, one writer mentioned the occasional use of very low-priced articles for this purpose.

(4) Extent to Which Customers are Deceived by "Loss-Leader" Selling

Six replies dealt with this question and the majority expressed respect for the acuteness of the average buyer. Four of the six stated that they did not feel that purchasers were led to believe that other goods in the store offering "loss leaders" were sold at similar reductions. The following is a typical comment:

". . . Our customers are very careful buyers and usually shop at least one other store, generally more, and also mail order catalogues, before making a purchase."

One firm hesitated to express an opinion:

"We would not know whether this is so or not. Much would depend on the continuity of advertising in each case."

The remaining reply, however, expressed a completely opposite viewpoint:

"Most people are deceived into believing that the store is offering corresponding reductions by the continued advertising hysteria that Loss Leaders involve. . . "

(5) On What Grounds Should a Distinction be Made Between "Loss-Leader" Selling and Alternative Means of Achieving the Same Result

Only five firms replied to this question, and of these, only three referred to the particular aspect of the problem to which the question directed attention. One firm evidently regarded the employment of "loss leaders" as a normal sales technique justified by the results it achieved, remarking:

"The only time that we use 'loss-leaders' is during big promotional sales where we have a large number of items on at special price reductions or specially bought for our promotion. We use these 'loss-leaders' at that time in order to bring people into our place of business. We feel, in fact, we know, that people, when they come in, will buy other merchandise. We do not feel that we are deceiving the customer by putting on these 'loss-leaders'. We feel that we are giving them an advantage in that the items featured as 'loss-leaders' are generally basic items which our customers need and will buy. We feel that this is one of the best and one of the most inexpensive ways of drawing people to our business. . . . it is less expensive for us to do a large volume of business in three or four days than it is to spread that same volume of business over a month."

Another stated:

> "'Loss Leader' selling generally assures immediate increased volume, extra transactions, and may form an idea in customers' minds that the store offering such appeals sells at a low price."

This statement should be qualified by an earlier comment of the same firm to the effect that, "Purchasers are rarely deceived. They will buy the bargain and make no other purchases in the majority of instances, though they will shop in any store offering 'loss leaders'."

The third firm made the following general comment:

> "The using of well established and advertised brands to advertise at cut comparative prices would seem to be unethical and confusing to the consumer."

The two remaining replies in this group differentiated "loss-leader" selling from the other promotional practices mentioned on other grounds: one considered that it constituted a reduction in mark-up as opposed to the other methods which involved an expense; and the other stated:

> "'Loss-leader' selling is usually identified with continuous effort by offering the customer a specific buying advantage as compared with other inducements of a more general nature and shorter duration."

(6) Are "Loss-Leader" Customers Likely to be Retained?

Six stores furnished answers to this question. Three firms were in broad agreement that the use of "loss leaders" was not in itself sufficient to retain customers although one store added the proviso that the clientele so attracted could be kept "if the store offers other inducements such as good service, fair prices in other items, and good reputable business practices". An additional reply stated that "New customers attracted by 'loss leaders' may in some instances be retained if the item is one that forms part of a larger spending project . . ." One writer in this group suggested that the limited use of "loss leaders" would not be effective:

> ". . . Loss Leaders become habit forming, because they entail the maintenance of volume, traffic, etc., and so must be taken in ever increasing doses."

However, one department store stated that it would be difficult to pursue such a policy:

> "We would be of the opinion that no organization could continually advertise merchandise at a loss to retail customers."

(7) Location of Outlets Using "Loss Leaders"

Of the six organizations answering this section, two stated that the localities in which the larger department stores are found were the market areas in which the use of "loss leaders" would be most common, and one said that "urban and suburban areas" were the most likely districts. Against this, however, another stated that ". . . it is a common practice of outlying furniture stores to put a good piece of furniture in the window at a price which would make it a 'loss leader'."

Finally, two department stores reported that they were not aware that "loss leaders" were in common use in any location.

(8) Relation Between Use of "Loss Leaders" and Type of Retailer

The seven answers to this section fall into two groups: those distinguishing the type of outlet and those distinguishing the type of business. In the first group, three replies ascribe the most frequent use of "loss leaders" to department stores. The reason was given in one case as follows:

> "The department store must have a large traffic in its store for efficient operation. They have a much larger static selling and administrative force than a specialty store and these must be kept busy in order to operate at a reasonable profit."

The fourth store in the first group stated that the practice was usually identified with chain stores.

In the second group, one reply stated that this type of operation was often utilized by appliance and radio dealers, and one that it was employed primarily by food, grocery and allied outlets. Another remarked that "Loss-leaders may be particularly used by such distributors as tire and gas dealers entering other merchandising, by 'credit' jewellers, etc. . . ."

(9) Effect of Competitive "Loss-Leader" Selling by Large Merchandising Organizations

Only three stores made specific statements on this point. One maintained that there was "no doubt" that the competitive use of "loss leaders" by large merchandising organizations would be self-defeating; another stated that it would probably be so and the third observed that if merchants were to make a practice of using "loss leaders" they would "certainly be likely to deprive themselves of a drawing-power."

(10) Quantitative Significance of "Loss-Leader" Selling

Of eight firms dealing with this question, two stated that they were unable to answer it. Four of the remaining firms commented upon the general significance of "loss-leader" selling, the consensus being

that this technique of sales promotion was used to a limited extent only and did not constitute an important problem. One department store remarked:

> "We should like to point out, however, that we do not believe there is any need for legislation purportedly for the purpose of regulating a trade practice that not only cannot be defined, but does not exist today as an economic problem."

Another said:

> "Immediately following on the dropping of 'price fixing' there was some evidence of 'loss leaders' selling, but the need for an adequate return on goods to cover expenses soon brought the practice under control, so that it is not a major factor in disrupting normal business now."

The final two writers in the group restricted their remarks on this point to the experience and activities of their own firms. One observed:

> ". . . 'loss leader' selling by us is only done on certain large promotional periods and although at those times it has a very significant part of our merchandising practices, it is not a general day to day business practice with us."

The other stated:

> ". . . we do not at any time practice the use of these, nor are we affected by their use by our competitors to any greater extent than by exaggerated statements or comparative prices. . . ."

(11) Effect of "Loss-Leader" Selling on Products Used for This Purpose

Here again, two organizations out of the seven replying to this question stated that they were unable to comment on the point raised. A further two took the view that both the reputation of the product and its market were damaged. As one firm put it:

> "If a high grade nationally known item is kicked around by one or more retailers it not only becomes undesirable merchandise from the retailer's angle but there is, undoubtedly, also a loss of status among the purchasing public."

The other stated its views as follows:

> "I think confusion results in the minds of consumers if they are subjected to the continuous use of Loss Leaders, particularly in branded and price maintained lines. For example if the \$2.98 shirt was selling down the street for \$2.88 and at still another

store at $2.48, the shirt in every case having the same brand name, the consumer would have every right to be both suspicious and confused. On the other hand, the retailer who is trying to make his legitimate mark up would immediately stop buying this shirt if he could, because he cannot compete with Loss Leader stores and remain in business."

A related but less decided view of the effects of "loss-leader" selling was expressed by two firms, one of which stated that the market for an item used as a "loss leader" was curtailed for a period, but not permanently, whilst the other remarked:

"Our recollection of this practice is that it does not permanently damage the reputation of any product."

The final comment on this question is of considerable interest as the organization concerned quotes from its own experiences in using "loss leaders", which it earlier defined as items "put on sale at a retail price of less than 'landed cost'." This firm stated:

"We do not believe that the use of products as 'loss leaders' tends to curtail the market for them or firmly damage their reputation with consumers. We have had ample proof of this in our own activity by the fact that items put on as 'loss leaders', although urgently grabbed up by our consuming public have had just as ample a call, a very short time after the completion of the 'loss leader' promotion."

(12) Use of "Loss Leaders" and Their Effect on Independents and the Concentration of Control in Merchandising

None of the six department stores that discussed this question felt that "loss-leader" selling had any significant effect on the opportunities available to independents or on the concentration of control in merchandising.

One firm qualified its opinion as follows:

"If it could be done, there is no doubt that the result of Loss Leading would be the concentration of merchandising in very few hands and that the independent retailer would find it difficult, if not impossible, to operate. . . .

However, I do not think this is possible under present economic conditions in the clothing field, but I do think if a depression comes, it could happen."

Drawing on its experiences during the depression years, however, another organization observed:

"We cannot remember any firm that went out of business owing to 'loss-leader' practices of the thirties, and it did not seem to affect merchandising to any great degree."

One department store felt that the concentration of merchandising in fewer hands was explained by other factors than "loss-leader" selling and stated:

> "We believe that the cause of this is due to the fact that the larger firms are in a position to obtain and retain administrative and executive personnel who are above the category of the average retailer in Canada. We believe that any person can, and many do, if they have the ability and initiative, have a very successful business in spite of the concentration of the retail business into the hands of two retail chains in Canada. We do not believe that the 'loss leader' principle has any direct effect on the general merchandising practices in Canada."

The final writer, dealing with this point, merely referred to his reply to question 10, which stated the firm's belief that "loss-leader" selling was "of limited extent and minor significance."

E. Summary of Replies to "Loss Leader" Questionnaire of November 4, 1952, Received from Individual Wholesalers and Wholesale Co-operative Societies, Individual Retailers and Consumer Co-operative Societies, Farm Groups, Consumer Groups and Labour Groups

In view of the limited number of replies received from each of the above groups and of the fact that the submissions received from some of them were of a general nature, it was considered desirable, in order to reduce duplication as much as possible, to consolidate the replies received from these groups into one summary. It should be emphasized that the consolidation of these submissions is purely a matter of convenience and should not be taken to imply a similarity of interest or viewpoint. The diversity of views will become apparent in the following summary in which care has been taken to identify the various points of view reported.

In all, twenty-two replies were received from the above-mentioned groups. The replies are divided as follows: consumer groups two, consumer co-operatives five, wholesale co-operatives six, small independent retailers four, independent wholesalers two, labour groups two, and farm groups one reply.

(1) Definitions of the Term "Loss Leader"

The drug jobber who replied to the questionnaire defined a "loss leader" as "Any product that does not give the retailer at least 25 per cent on selling price . . . inasmuch as the average cost of operating a retail drug store is around 30 per cent". One of the wholesale co-operative societies expressed the view that "An article sold at less than the normal gross margin" was a "loss leader". On the other hand, three other wholesale co-operatives defined the term in such a way that a narrower range of items was covered. Thus, one designated as a "loss leader" "An item . . . that sells near to, at, or

below laid in cost of that article", and stressed in addition that it must be highly advertised and prominently displayed; the second said that a "loss leader" was "An article sold at less than invoice cost, plus freight and sales tax"; while the third observed:

> "A 'loss-leader' refers to an item specifically selected by the store management and intentionally priced at such a low price that an actual loss is experienced. This item may be priced only to cover the invoice cost of the merchandise which means that handling cost and profit are lost or, in some cases, may be priced below actual invoice cost."

One consumer co-operative society did not provide a specific definition of the expression. Two others defined a "loss leader" as an item sold at less than invoice cost plus, in one case, "average handling charges", and, in the other, "freight plus operating mark-up". The final reply from this group defined a "loss leader" as "An article sold at a lower than market price".

Among the independent retailers, an electric appliance dealer, while not attempting to set out a specific definition, suggested a possible basis of identification. He stated:

> "Your bureau should be able to establish the average, or lowest, cost to do business in different classifications and this should form a basis as to what is a 'loss leader'."

The other electric appliance retailer stated that, in his opinion, a "loss leader" is ". . . anything that is sold below the actual cost, plus the cost of doing business. . . ." The food store stated that the term was applicable to goods sold at or below "landed cost".

The national labour organization accepted the description of a "loss leader" contained in the Report of the Royal Commission on Price Spreads, 1935, on pages 228-230, (quoted above), while its affiliated union defined it as ". . . anything that is used to attract sales and is sold at a price that cannot possibly bring the retailer his cost, plus a reasonable mark-up". Finally, the provincial farm produce growers' association stated:

> "In our book, a loss-leader is a retail item priced at or below the laid-in cost of this item."

(2) How Can a Distinction be Made Between "Loss-Leader" Selling and Other Types of Price Reduction Such as Clearance of Damaged Goods, End-of-Season Sales, Etc.

One wholesale co-operative, concerned primarily with grocery products, said that the "loss-leader practice can be distinguished from other normal mark-downs in good business procedure through the fact that the loss-leader item is generally one that is in everyday demand"; another maintained that "'Loss-leaders' usually involve

nationally advertised items and fewer items at a time than is the case with a 'sale'."

Three retail co-operatives expressed closely related viewpoints. One stated that "the 'loss-leader' practice is different from the practices enumerated in (2), but the difference is hard to define and the practices are open to abuse", whereas another said that "The practices listed under (2) are really variations of the 'loss-leader' technique", and a third maintained that it was "impossible to distinguish with certainty between the two categories". An independent food retailer indicated that distinguishing the "loss-leader" technique from the other types of price reduction mentioned in question (2) was not difficult in the grocery field:

> "One has only to look at the weekly advertisement of certain super-markets to tell that the 'loss leaders' used are definitely not distress sales or damaged or shop-worn goods. Items frequently used are new packs which come from reputable firms . . ."

This retailer stated that "the big super-market can operate a lot cheaper than the drug store because it has a much bigger volume and therefore a much smaller wage percentage, which is the big item in expenses," although he did not state how price differences based on this cost differential could be distinguished from other types of price reduction. In addition, he stated:

> "The wholesale price is of little consequence because although the bigger buyer may, with quantity buying, obtain a price 2 or 3% below the little man, the efficient small store can operate as much as 4 or 5% below the big market."

The labour organization also thought that, on the whole, the "loss-leader" type of price reduction could be distinguished from other types:

> "It might, perhaps, sometimes be hard to decide whether certain goods were surplus stocks, or one-cent sales might present problems: the retailer might try to dress up a 'loss-leader' in this guise. I cannot see any serious danger of confusion between 'loss-leaders' and the other things mentioned in your paragraph (2)."

This union was particularly concerned with the baking industry and of this field remarked that "The only type of reduced price possible is that for 'stale products'", apart from "loss leader" price reductions.

(3) <u>Types of Goods Most Frequently Used as "Loss Leaders"</u>

The drug jobber listed the following categories of products in reply to this question:

"Fast selling nationally advertised lines -
Baby foods
Aspirin Tablets and competitive lines
Face Cream
Liniments
Facial Tissues
Toilet Papers
Soaps
Razor Blades
Shaving Creams"

One co-operative wholesale society gave examples of grocery products commonly employed as "loss leaders":

> ". . . classes of goods that are particularly subject to loss-leaders are those items used in the everyday life of Mr. and Mrs. Consumer . . . as examples we quote Coffee, Tea, Sugar, Bread, etc. . . . they are items that normally carry a low mark-up due to rapid turnover and because of the rapid turn-over are picked as loss-leaders. . . ."

Another stated that a well-established price was a characteristic of items employed as "loss leaders".

Among the retail co-operatives, "goods classed as necessities", "commodities in general use by nearly everyone", "low-cost items" and "nationally advertised" goods were variously mentioned as those prone to use as "loss leaders". The independent food retailer stated that goods nationally advertised through magazines, radio and television were often picked because of their "power to draw business", and "price cutting increases the pulling power".

The labour union mentioned bread as an ideal "loss leader" due to its power to "attract customers into a large store".

The provincial farm produce growers' association remarked:

> "When the loss leader was in common use in grocery stores the practice was to pretty well confine it to those things dominating the average table and thus we found greater use of the farm products as differentiated from dry groceries as the items invariably used. . . .
>
> Before the war butter and fresh fruits and vegetables were the favourite items used in loss-leader sales. Butter was sold continually at or below laid-in cost as were many of our fruits and vegetables."

(4) <u>Extent to Which Customers are Deceived by "Loss Leader" Selling</u>

The jobber of drug-store products stated in answer to this

question:

> "The loss leader creates an impression in the consumer's mind that other lines are offered at bargain prices."

One of the co-operative wholesale societies took a somewhat different view:

> "It would be difficult to say that purchasers are deceived . . . rather we would like to say that they are impressed with loss-leaders which convey to them that the general price structure of the store is low. It does not necessarily lead people to believe that all items in that particular store are sold at this terrific low price."

Another observed that "while a minority of the people may be deceived by 'loss-leader' tactics . . . we think it is fair to say that the general public is not usually deceived by these methods."

The final reply from the wholesale co-operatives, however, stated that "Purchasers are a very gullible lot and a large percentage are badly deceived into thinking that the loss leadersrepresent the general price level in the store".

The replies from the retail co-operatives also indicated some division of opinion on this point. One stated that "Purchasers are not usually fooled by 'loss-leaders'", and another added that "People with time which is of little value make a practice of buying 'specials' almost exclusively". In contrast, a third co-operative stated that "it is . . . the intention of 'loss-leaders' to give the impression that the store featuring the 'loss-leader' sells goods at reduced prices" and added that low prices on "every day demand items will certainly create a thought in the mind of the consumer that she can make a saving by dealing in the store which is advertising these 'loss-leaders'."

The independent food retailer made substantially the same point and observed:

> "The fact that items go back to regular prices each week after being used as loss leaders can be easily forgotten or go unnoticed by the majority of shoppers as each week brings its new cut prices for her benefit. . . ."

The labour union felt that there was some possibility of customers being "lulled" into believing that all prices were low in stores featuring "loss leaders". On the other hand, the spokesman for the provincial farm produce growers' association stated:

> "I don't think the buying public was deceived into thinking other items sold in the store were also bargains."

Speaking of the food chains, this writer noted:

> "Their whole philosophy of retailing is based on impulse buying. Expose the customer to attractively displayed goods and human nature asserts itself to the extent that the consumer buys more than she planned. The thing is to get her into the store."

(5) <u>On What Grounds Should a Distinction be Made Between "Loss-Leader" Selling and Alternative Means of Achieving the Same Result</u>

In the wholesale co-operative group, one reply stated that "Loss-leader selling coupled with high-pressure advertising creates impression with the purchaser faster than do the other methods mentioned in . . . paragraph 5". Another remarked that the "'loss-leader' practice involves a much greater degree of conscious deception of the customer". Another wholesale co-operative stated that "'Loss-leader' selling may be classed as a form of high-pressure advertising whose ulterior motive is the sale of a good volume of normal or high-margin goods". The "loss-leader" technique is contrasted with the other sales methods listed which "have the straight-forward purpose of moving the specific goods involved".

A consumer co-operative answered that "A loss-leader must be advertised, but it does give the cut directly to the buyer", while another remarked with reference to "loss-leader" selling:

> "It differs because the result is much less serious to a store which has a large volume of business and a low cost of operation as compared with one which has a small volume and usually a high cost of operation."

The grocery retailer stated that "'loss-leader' selling in the big market probably costs more money than straight advertising but the idea is to pull increased volume to offset the extra cost".

The labour union, referring to the use of bread as a "loss-leader" item, noted that "The chain stores advertise bread constantly and could not honestly claim it as being in lieu of advertising".

(6) <u>Are "Loss-Leader" Customers Likely to be Retained?</u>

The jobber of drug products stated that "Continued use of loss leaders is necessary". Similarly, a co-operative wholesale society inferred that continued "loss leader" selling was necessary in the following passage:

> "Customers generally attracted by loss-leader selling are usually retained through the fact that that particular store is continually impressing that customer with the fact that their prices are better. Loss-leader practice is a program that is continued rather than one that is introduced once or twice a year."

Two further answers from wholesale co-operatives were in agreement that a continuous policy of "loss-leader" selling was necessary to secure the patronage of customers initially attracted by the device, although one added the qualification: if service is otherwise satisfactory "undoubtedly a small percentage of the people finding their way into the store because of a 'loss-leader' can be retained as steady customers".

Substantially the same point was made by one of the retail co-operatives. A further two believed that customers were unlikely to be retained without continued use of "loss leaders". Another affirmed that "Permanent customers are not attracted to any great extent to a single store but they are attracted in great numbers from outlying towns to larger trading centres where they do most of their purchasing . . ."

The food retailer's reply indicated that location is an important factor in the consideration of this question. The writer stated:

> "I would say that a certain amount of new customers are gained by loss-leaders and do believe that in certain locations the 'leaders' must be used to hold the patronage of these people. I would not say the leader lines are sufficient to hold new customers . . . in a highly competitive area . . ."

Finally, the reply from the provincial growers' association included the following remark in regard to pre-war "loss-leader" sales:

> "I feel sure there was a lot of running from store to store for the bargains and that the loss leaders did not build up steady customers."

(7) Location of Outlets Using "Loss Leaders"

The drug wholesaler expressed his view that central and downtown markets employ "loss leaders" to attract suburban clients but added that "loss leaders" were also used to attract customers to shopping areas and "super stores" in rural districts. A co-operative wholesale society took the view that the practice is more widespread in downtown markets but noted that "downtown market area practices are being keenly picked up by those areas in outlying districts". Another society also mentioned that "loss-leader" practices are commoner in central or downtown areas "where traffic is heavy and where opportunity to get many people into the store is greatest", while a third stated that small mail order houses, in addition to retailers in downtown market areas, frequently employed this method of sales promotion.

Among the retailers, two consumer co-operatives believed the use of "loss leaders" to be more prevalent in central areas and a third said that "The practice has spread to all except those small trading points beyond the influence of the larger centres". The retail food store provided the following explanation of the more frequent use of "loss leaders" in downtown market areas:

"The downtown store faces keener competition. The outlying store usually has a good parking lot and no traffic congestion and with these things in its favour does not need as many 'loss leaders' to draw business. Of course, in smaller places where only one chain store is located, price cutting is held to a minimum because it does not seem to be necessary in order to do a satisfactory business."

The labour union stated that the "Loss Leader seems to be used chiefly by chain stores in built-up areas with heavily concentrated population". The provincial farm produce growers' association stressed that advertising is an essential element in "loss-leader" selling "so this means it is more generally employed in the larger centres - those enjoying newspapers with large circulation".

(8) Relation Between Use of "Loss Leaders" and Type of Outlet

The reply from the drug jobber also mentioned the importance of advertising in "loss-leader" selling noted in the final paragraph of the answers to the preceding question. He thought that the cost of advertising was too high for independent stores and that chains and "super stores" were, for this reason, more able to utilize the "loss leader" technique. One of the wholesale co-operative societies took an identical view and another, although not stating what it believed to be the reason, also commented that "chain store type operators" more usually introduced and regularly employed "loss leaders" than did the independent stores. The final reply from the wholesale co-operative group was somewhat more general in scope, stating that "loss leaders", "are more commonly used by 'consumer merchandise' retailers, and more particularly by chain grocery stores".

In contrast to the leading opinion among wholesalers that "loss leaders" are featured by the larger merchandising organizations, one consumers' co-operative noted:

"Although originated by chain and department stores, the practice has had to be adopted by most other smaller organizations in self-defence."

Another observed with reference to the question whether "loss leaders" were employed more regularly by one category of retailers than by others:

"Not generally. It is common practice, although a store must have enough merchandise display to offset the leader."

However, the third reply indicated the belief that "corporate chain food stores" used the practice of "loss-leader" selling more frequently than other retailers, and the final answer in this group was confined to the observation that grocery stores were the most common users of the "loss-leader" practice.

Finally, both the national labour organization and its affiliated union shared the view that chain stores employed the practice more frequently than did other retailing groups.

On this point the spokesman for the growers' association commented:

> "I don't think loss leaders are confined to any one category of retailers if by this is meant food retailers as against clothing retailers. The loss-leader, however, is used by retailers who advertise more than by those who don't. It lends itself to the chains because their advertising covers many stores."

Elsewhere in the submission of this group the following comment was made:

> "The food chains, who were the chief offenders because they were the advertisers, were after volume as their whole merchandizing system is volume turnover at low mark-up in contrast to many independent retailers who refuse to seek volume preferring to enjoy a high mark-up on a limited amount of sales rather than a low mark-up on a lot of sales. We abhor the high mark-up on limited sales as much as we do the loss leader."

(9) Effect of Competitive "Loss-Leader" Selling by Large Merchandising Organizations

A wholesale co-operative society observed with reference to the competitive use of "loss leaders":

> "Loss-leader practice tends to be self-defeating but . . . the smart thinking merchant is continually finding new ways of operating his store to maintain loss-leader selling and at the same time maintain sufficient gross. By that we mean that you will note in today's trend of merchandising, the food stores are starting to sell non-food lines for higher margins."

Another wholesale co-operative replied:

> "Yes, it would lead to utter chaos with smaller retailers going out of business."

A third stated:

> "Loss-leader 'tactics' will always have some appeal to bargain-seekers, and will, to a degree tend to promote and advertise the place of business that is offering products at these low figures."

One of the consumer co-operatives took a similar view, stating that "It is doubtful whether this practice would have any damaging result since it would always tend to advertise the store which employs

it." Another mentioned that "In practice it has not proved to be the case that the use of specials by large operators has worked to their detriment". The third answered:

> "Yes, customers would tend to become suspicious and the practice would lose its effectiveness."

The independent grocery outlet observed:

> "When 2 or 3 larger markets are engaged in the same price cutting business, the drawing power of any one is limited but over a period of time . . . the average independent will suffer the most, and in the long range view, the larger markets will attain their objective."

The labour organization and its affiliated union both thought that competitive price-cutting would tend to be self-defeating. The growers' association, although not commenting upon whether the process of competitive "loss-leader" selling defeated its own purpose felt that "The loss leader is not self-defeating so far as damaging a particular store's reputation with the public".

(10) Quantitative Significance of "Loss-Leader" Selling

It should be noted that this question was, for obvious reasons, omitted from the letter sent to consumer, labour and farm groups.

One wholesaler who replied to some sections of the questionnaire commented in this connection:

> "We must agree that during the period of buoyant economic conditions in Canada, this, in our opinion, has not been a factor. Prior to World War 2 it was and it is our thinking that in the last six months, when we believe conditions have returned to a more normal state, it is again putting in its appearance."

A retailer of stationery and office supplies took a somewhat similar view to that expressed by the wholesaler:

> ". . . I should like to express the opinion as a merchant and as an ordinary buyer that the type of 'loss-leader' selling which I think you have in mind is not nearly as prevalent today as it was prior to 1945."

One of the electric appliance retailers in British Columbia, however, stated in regard to the electric appliance field that "There were hundreds of refrigerators sold in this city last summer at prices way below what it cost to do business". It may be observed that this dealer suggested that the "average or lowest, cost to do business in different classifications" as determined by statistical observation, should be the basis employed in determining what constitutes a "loss leader". The Ontario food retailer hesitated to assess the effect of "loss-leader"

selling in his volume of business and added that such an assessment might take one or two years due to the existence of "complications and local situations and conditions".

Although not dealing specifically with the question as formulated in the questionnaire, the spokesman for the growers' association made the following comments which are relevant to the matter at issue:

> "In the retail food field the practice is not a problem and has not been for some time. The chains, who were the chief offenders, have got the public coming to their stores on the basis of quality, service and price. They, however, are facing heavy operating costs and operating on the basis that each department must show a profit and the emphasis is on volume plus profit. They do indulge in pressure buying in order to get price as low as possible but they seldom indulge in the old practice of loss leader selling. They have become very conscious of farm pressure."

Elsewhere in this submission, however, the fear is expressed that ". . . the practice will break out again if we take a nose-dive economically . . ."

(11) Effect of "Loss-Leader" Selling on Products Used for This Purpose

In relation to the effects of "loss-leader" selling on the marketing of drug products, the drug jobber stated that sales of an item drop when stores stop using it as a "loss leader". Retailers "throw the line out when advertising stops and take on another". Two wholesale co-operatives took a different view, one stating that neither the market for, nor the reputation of, a product used as a "loss leader" was affected, the other observing that "A good quality product should not be damaged by the practice, since staple products become known by quality rather than price".

There was strong disagreement, however, with this opinion from the two retail co-operatives answering the question. One, commenting on the marketing aspect, observed that "loss-leader" selling "will curtail the market for an item since merchants will shun one that is constantly used as a football"; the other, in regard to the reputation of a product, said that "Customers will come to regard the 'loss-leader' price as the regular price, and so seek a substitute for the article when it reverts to its normal price". The retail stationer concurred in the opinion that the market for a product can be diminished by "loss-leader" selling and cited the damage to the market for certain branded goods which occurred forty years ago in the stationery trade due to "confusion of prices". This view was not, however, shared by the retail food store, which reported as follows:

> "No, item used as leaders sell just as well or better afterwards because they have gained some extra advertising, being used as leaders. I would say there has been no evidence of any drop in sales in these items."

The labour union, referring to a different but relevant case, mentioned the damage to the reputation of, and market for, a particular manufacturer's products when the products of another manufacturer are consistently used as "loss leaders". The union contended that the consumer would feel that he was being "grossly overcharged" by the retailers not selling the "loss-leader" variety of bread, "and this could damage the reputation of reputable companies" which made and distributed the higher-priced loaf.

(12) Use of "Loss Leaders" and Their Effect on Independents and the Concentration of Control in Merchandising

This question, as well as question 10, was omitted from the letter sent to farm, labour and consumer groups.

A British Columbia electric appliance retailer believed that "loss-leader" selling resulted in the concentration of merchandising in fewer hands; he concluded:

> "You can just look at the price war on cigarettes which is upsetting, and possibly putting out of business, many small merchants in this city."

The grocery retailer partially concurred in this view:

> "In loss-leader selling, the big market is moving ahead and almost eliminating the opportunities of the smaller independent market."

After mentioning the growth of chain stores in Ontario during the past few years, the writer concluded:

> "I would say certainly 'loss-leader' selling deserves full credit for most of the present conditions."

Earlier, however, the opinion was expressed by this writer that "The established independent, if aggressive, will be able to hold his own against the giants".

Finally, an association of consumers although not feeling competent to discuss the technical aspects of the questions relating to merchandising policies and practice, expressed its more general opinions with reference to "loss-leader" selling as follows:

> "The . . . is not in a position to explore and assess the technical details involved in many justifiable forms of bargain selling. We can see numerous occasions in which the practice of selling below cost could be justified, and the definition of such situations concerns, we think, the retail trade, and not the consumer.

The particular form of 'loss leader' practice that seems to us to be immoral and to be against the public interest is that whereby a financially stronger competitor sells at a loss as a means of putting a weaker competitor out of business.

All means of eliminating competition, except those of offering better service or superior goods, are against the best interest of the consumer, and hence of the public. Any 'loss leader' practice which creates small monopolies in the local trade concerned, and which reduces public freedom of choice, thus exposing the public to monopoly prices, should be curtailed.

We feel that any cut-price practice carried on long enough, and at a low enough level to make competition impossible for shops, etc. with lesser financial assets, represents the type of 'loss leader' practice Canads should ban. This should not include lowering of regular prices of special articles obtained at special wholesale rates by means of larger orders or greater volume of sales; nor should it include the normal savings to be gained from lower overhead or great sales volume as in chain or department stores, in family businesses or otherwise low-expense enterprises. These represent legitimate merchandising methods that operate to the good of the consumer, and are a challenge to the businesses concerned.

Any prolonged or systematic price-cutting, where reasonable profits are foregone without very adequate reasons for such behaviour, should be suspect, however, and could be considered an attempt to create a monopoly in the district in which it occurs. This monopoly is a form of restraint of trade and should be deemed an unfair practice."

ANNEX I

DIRECTOR OF INVESTIGATION AND RESEARCH
COMBINES INVESTIGATION ACT
OTTAWA

Room 122, Justice Building,
November 4, 1952

Dear Sir:

One of the recommendations of the MacQuarrie Committee to Study Combines Legislation was to the effect that the "loss-leader" practice should be referred for study to the new Combines organization "with a view to determining its prevalence and its effects and to recommending to the Minister suitable amendment, if necessary, of the Act."

As one step in the study of the "loss-leader" practice, it seems desirable to obtain information from as broad a group as possible of those who have had experience of the nature, extent and effects of the practice. I would, therefore, appreciate it very much if your organization would prepare a statement of its views on the "loss-leader" practice, covering, as fully as possible, at least the following points:

(1) What precise definition (or definitions) of the term "loss-leader" do members of your organization employ. If any of these involve the matter of "cost", please indicate clearly what type of cost is meant, e.g., invoice cost, specific handling costs, average handling cost, etc.

(2) How the "loss-leader" practice can be distinguished from such well-recognized merchandising practices as the clearance of damaged goods, surplus stocks and end-of-season stocks; one-cent sales; price reductions on new goods to introduce them to the market; price reductions that reflect differences in costs of goods and in operating efficiency; and price differences that reflect differences in the method of marketing (as super-markets and drug stores selling the same product).

(3) Whether there are certain classes or types of goods that are particularly subject to use as "loss-leaders" and, if so, what their characteristics are.

(4) Whether purchasers are deceived by "loss-leaders" into believing that most other goods sold in the store are also offered at corresponding reductions.

(5) How "loss-leader" selling differs from alternative means of accomplishing, at the same cost, the same sales results such as advertising, premiums to employees, a slight general price reduction, merchandise premiums to patrons, feature sales, and the like.

(6) Whether new customers attracted by "loss-leaders" are likely to be retained, or whether the continued use of "loss-leaders" is necessary and sufficient to obtain their future patronage.

(7) Whether "loss-leaders" are more commonly used in central or downtown market areas than in the outlying scattered market areas.

(8) Whether "loss-leaders" are more usually introduced and regularly employed by one category of retailers than by others.

(9) Whether, if large merchandising organizations engaged in competitive "loss-leader" selling, the efforts would tend to be self-defeating and likely to deprive the practice of its drawing power.

(10) Whether it is possible to give any quantitative estimate of the significance of "loss-leader" selling in your particular sphere of distribution; and, if not, on what basis your conclusions as to the extent and significance of the practice are derived.

(11) Whether the use of products as "loss-leaders" tends to curtail the market for them or permanently damage their reputation with consumers, and whether any such consequences are or have been evident.

(12) Whether "loss-leader" selling results in the concentration of merchandising in fewer hands or limits the opportunities of independent firms, and whether any such consequences can be traced directly to the "loss-leader" practice.

I would, of course, welcome your comments on any additional aspects of the "loss-leader" practice that may occur to you. In dealing with the various aspects of this question, the use of specific data and of actual illustrations drawn from current merchandising

practices would be of special value. If it is possible for your organization to make available a statement of its views at an early date, it would be of very considerable assistance.

Should any of your members wish to submit information or views based on the particular experience of an individual firm, I would be glad to have such individual submissions in addition to the general association statement.

Yours very truly,

T. D. MacDonald
Director

ANNEX II

DIRECTOR OF INVESTIGATION AND RESEARCH
COMBINES INVESTIGATION ACT
OTTAWA

Room 122, Justice Building,
April 17, 1953

Dear . . . ,

On November 4, 1952, I wrote to a large number of associations, companies and individuals, including your organization, - inviting comments on various aspects of the practice of "loss-leader" selling. I emphasized at that time that specific examples drawn from current merchandising experience would be of particular interest.

The response to that invitation has provided a valuable body of information on the views of Canadian manufacturers, distributors and consumers on "loss-leader" selling and related practices. Since, however, business practices and general business conditions are constantly undergoing at least some change, I should like to continue to receive the comments of individuals and groups on any current developments in merchandising that may relate to "loss-leader" selling.

I should also like, particularly, to be informed about as many actual cases of "loss-leader" selling or similar practices as possible.

Finally, in connection with a different inquiry that is being undertaken as to the existence and extent of discriminatory pricing and its effects, particularly upon independent dealers, I should like to receive from you and your members your views upon this matter together with the exact fields in which it may be believed to exist. For convenience I am dealing with all these matters in the same letter.

I wonder whether I may enlist your assistance in canvassing your members for any views or information they may have upon these matters. To recapitulate, for convenience, I would like to have the following:

1. Any information relating to developments in the practice of "loss-leaders" selling or similar practices since my last inquiry.

2. As many actual cases, as possible, which are believed to represent "loss-leader" selling or similar practices. (If we are supplied with the buying price and source of supply of the complainant and

the selling price of the competitor complained about, supported where possible by reference to newspaper or other advertisements, we will ourselves complete the information as to the competitor's buying prices.)

3. Information as to selling prices which are believed to discriminate unfairly against particular classes of dealers (whether legal or illegal under the present law) and the exact field in which the practice is believed to exist. (General information without mention of specific prices will suffice on this point.)

I shall appreciate very much any assistance that you can give me in obtaining material of the nature indicated from your members. My thought in writing you is that you might wish, through your trade journal or by way of circular as you saw fit, to bring the matter to their attention.

In order to be of maximum use, I would like to receive any such information as early as possible.

Yours very truly,

T. D. MacDonald
Director

V. REPORTS ON ALLEGED CASES OF "LOSS-LEADER" SELLING

In the inquiry addressed by the Director on November 4, 1952, to a broad cross-section of manufacturers and distributors as well as to consumer and labour groups, inviting comments on a number of specific points relating to "loss-leader" selling, it was also stated that ". . . actual illustrations drawn from current merchandising practices would be of special value." This point was further emphasized in the Director's circular letter of April 17, 1953, in which he stated that he would "also like, particularly, to be informed about as many actual cases of 'loss-leader' selling or similar practices as possible." In response to these requests a number of cases of alleged "loss-leader" selling were brought to the Director's attention. The majority of these were reported by the National Foods Division of the Retail Merchants Association of Canada Inc., but a number were also received from individual retailers and from manufacturers.

In the case of each report received, a request was sent to the company or individual selling the article as a supposed "loss leader" for information on the following matters:

1. The date on which and the source from which the product was purchased.

2. The net purchase cost of the product, that is the list price less the regular trade discounts and any special volume, cumulative or other discounts, price concessions, or allowances which applied to the product but before cash discount.

3. The number of days this price was in effect.

It was made clear in each case that the Director's interest at that stage was simply to obtain information and that no criticism of the price charged was intended or implied.

A total of forty-eight replies was received; forty-five of these related to items sold in grocery stores and three to items sold by retailers of household electric appliances. Replies to a few requests for information were still pending at the time this report was written. In view of the limited number of replies that relate to household electric appliances and of the more general inquiry into this field, based on the questionnaire on sales and prices of such products, which is dealt with later in this Statement, the three replies dealing with household electric appliances have not been considered here but have been included with the replies to the questionnaire.

Fourteen retail firms provided information on the forty-five grocery items; eight of these were chain stores reporting on thirty-eight items, and six were independent retail stores reporting on seven items.

Although reference has been made to forty-eight "items" and forty-eight "replies", there was some duplication of the items to which the forty-eight replies had application. In the grocery field the forty-five replies covered twenty-nine separate items. Three items were the subjects of four replies each; one item was the subject of three replies; five items were the subjects of two replies each; and twenty items were the subjects of single replies. In the analysis that follows, however, each reply will be considered to deal with a separate item in as much as the net purchase cost or selling price for the same item often differed from seller to seller.

Of the forty-five items sold in grocery stores, eight were sold below net purchase cost. Four of these were sold in chain stores and four in independent outlets. The reductions below the net purchase cost of the four grocery items sold in chain stores were 5.3, 7.4, 10.1 and 19 per cent. The first one applied to the price of bread sold in Ontario, the next two to canned soups sold in Alberta and the last one to Canadian Pork Luncheon Meat also sold in Alberta. The average of these four percentage reductions below the net purchase cost was 10.5 per cent. The reductions below net purchase cost for the 4 grocery items sold in independent stores varied from 3.8 per cent to 53.8 per cent. This latter reduction and another of 51.9 per cent applied to the price of bread in two towns in British Columbia. The average of the four percentage reductions below net purchase cost was 29.4 per cent. Excluding the two extreme reductions on bread, the average becomes 5.9 per cent.

A total of thirty-seven grocery items were sold at or above net purchase cost, two of which were sold at net purchase cost, both in chain stores. Thirty-four of these thirty-seven items were sold in chain stores, and three in independent stores. The thirty-two items sold above net purchase cost in chain stores carried mark-ups above net purchase cost varying from 1.3 per cent to 24.2 per cent, the average of these percentages being 7.4 per cent. The three items sold in independent stores carried mark-ups above net purchase cost varying from 2.6 per cent to 8.7 per cent, with an average of 4.7 per cent.

Regionally, four of the eight items selling below net purchase cost were sold in British Columbia, three were sold in Alberta, and the remaining item was sold in Toronto, Ontario. The thirty-seven grocery items sold at or above net purchase cost were distributed geographically as follows:

Ontario	-	34;
British Columbia	-	1;
Quebec	-	1;
Newfoundland	-	1.

One correspondent suggested in a letter to the Director that the net purchase cost as defined above should not be used as the base from which to measure price reductions for both chain stores and independent stores. Rather, an addition should be made to the chain-store net invoice cost. His view was stated as follows:

> "We submit when Chain Stores sell at 5% above invoice cost, they are in effect only breaking even in as much as their distribution cost is 3 1/2 to 4%. The Independent Retailer is charged in his cost by his supplier covering distribution."

The suggestion here apparently is that a 5 per cent charge should be added to the chain-store net purchase cost to cover the wholesaling function of the chain. This would be a larger up-charge than is considered adequate by a number of chains. However, in view of this suggestion, the thirty-four items sold by chain stores at or above net purchase cost have been classified into two groups: those sold below net purchase cost plus 5 per cent and those sold at or above a mark-up of 5 per cent.

On this basis, fourteen items were sold below a 5 per cent mark-up and averaged 2.68 per cent mark-up. Twenty items were sold at or above a 5 per cent mark-up and averaged 10.02 per cent mark-up. In addition as has been pointed out, four items were sold by the chain stores at less than net purchase cost.

The reports on the number of days the special price was in effect indicated that the two reduced prices for bread in force in the independent stores had continued for an extended period of time. The remaining independent-store prices were reported as week-end specials. The chain-store prices were reported as being advertised as week-end specials, although in some cases the repetition of the same item as a reduced-price "special" for a number of successive weeks suggests that the lower price had in effect become the "regular" price.

The foregoing cases are put forward for such value as they may be considered to have; they constitute the replies received to the request for instances of "loss leaders" in the grocery field.

This limited survey, dealing with what were evidently taken as extreme cases, would suggest that sales of grocery items below net purchase cost are comparatively rare and that they are found in multiple-unit and single-unit stores with about equal frequency. It also appears that in a number of cases prices, which appear to the single-unit retailer to constitute "loss-leader" selling, yield small to substantial margins on the basis of the net purchase cost of the multiple-unit store.

VI. REPLIES TO QUESTIONNAIRE ON "LEADERS" AND "SPECIALS" IN THE MERCHANDISING OF GROCERY PRODUCTS

In the replies received to the general questionnaire on the nature, frequency of use and effects of "loss-leader" selling, it was clear that one field in which it was felt by the smaller merchants engaged therein, or, more precisely, by the associations representing them, that "loss leaders" were used very frequently and were offered at large reductions below the "regular" price was the grocery store field. It was furthermore claimed that within this field "loss leaders" were used most frequently and at the most severe price reductions by the chain stores. In view of these representations a special questionnaire, which is attached with its covering letter as Annex I, was sent on June 11, 1953, to all grocery and combination (grocery and meat) chain stores in Canada. These totalled forty in number. Replies were received from fifteen. These replies fall into two groups: five relate to the operations of chain stores with a sales volume in 1952 of over $70,000,000.00 each; the remaining ten replies came from small chains with sales under $2,000,000.00 each, with half of this group having sales of less than $1,000,000.00 each in 1952. The replies themselves varied a good deal in completeness; in particular, those received from the smaller chains were lacking in detail and in the precise percentage estimates which were called for in the questionnaire. In this connection it should be observed that the records required to provide the information requested were said, in some cases, not to be available; furthermore the time required to make the necessary analysis of selling prices was another factor which made it difficult for the smaller chain operators to compile complete and precise returns.

Because of the differences in the completeness of the reports received from the two groups of chains and because of the marked difference in their scale of operations, a separate summary will be provided for each.

A. Local Chains

The chains reporting in the group having the smaller turnover varied in size from two chain units* to seven units and their sales

* There is some doubt that a two-unit store system qualifies as a "chain" store. Although there is no agreed definition of a "chain" store, the Dominion Bureau of Statistics defines "chains" as "retail organizations operating four or more retail outlets, excluding department stores". For the limited and special purpose of the present analysis, however, it did not appear necessary to exclude this "chain", particularly since it had formerly consisted of a larger number of units.

for 1952 from about $300,000.00 to approximately $2,000,000.00.

Question 3 in the questionnaire requested information as to whether "specials" and "leaders" tended to be used more generally in certain areas or cities than in others. Eight of the ten replies either indicated directly that "specials" and "leaders" were about equally important in all the areas in which the chain store operated (four reports), or did not answer the question (four reports). Of the remaining two chains, one operated in British Columbia and one in Nova Scotia. The chain store in British Columbia, operating widely throughout the province with the exception of the cities of Vancouver and Victoria, indicated that "specials" and "leaders" tended to be more generally used in the Fraser Valley area, whilst the chain operating six units in Nova Scotia indicated that "specials" and "leaders" were most common in the cities of Halifax and Dartmouth. Question 3 also asked if the items used as "specials" and "leaders" were sold at the same time in all stores in the chain system, or if the articles were selected regionally or locally. One of the chains, with three units, indicated that "specials" and "leaders" were used in all stores at the same time. Another chain with four units indicated that a "Saturday morning radio special" was sold by all stores in the chain, but that all other "specials" and "leaders" were selected locally. Another chain, having six units in the system, stated that two special sales were held each year at which the same "specials" were offered by all stores, but that at other times advertising was done by the local store. Two other chains, with five and six units respectively, stated that all items used as "specials" and "leaders" were selected by the local units. The remaining stores did not provide information on this point.

Five of the chain stores in this group stated, in reply to question 4, that all "specials" or "leaders" were included in newspaper advertisements. One chain stated that only part of the "specials" or "leaders" were included in its newspaper advertisements, and that the most important forms of advertising used were special window banners and price cards in the stores. The remaining chains that answered this question stated only that newspapers were the most important means of advertising employed, followed by hand bills and radio.

Question 5 requested information on the factors that determined the items used as "specials" or "leaders", and a few categories were suggested such as the nature of the commodity, the seasonableness of the item, the price of the item, the discounts and allowances obtained from suppliers, whether the product was nationally advertised or a private brand, and so on. The replies were somewhat fragementary and no consensus appears. One chain store stated that they tried "to pick something that would appeal to the shopper"; another stated that they generally used seasonable articles but that they had no preference as between private brands and national brands; another stated that the discounts and allowances obtained from suppliers determined the items that were offered as "specials" or "leaders"; and still another stated that they used items "featured by suppliers at a low price" and items on which they received special discounts and allowances.

Question 6, relating to the period of "the past month", requested information on nationally advertised or standard brand articles sold by the chain store in question above net purchase cost* but below the regular shelf price (the sum of net purchase cost plus a margin deemed adequate to cover each item's appropriate share of operating expenses and profit). With reference to each item so sold the following data were requested:

1. The percentage reduction below the regular shelf price,

2. The number of days the reduced price was in effect,

3. The store, or stores, in which the item was sold, and

4. The percentage which such items constituted of the total number of items advertised by the chain store.

Only one firm provided specific information in reply to this question. This chain store reported that during the past month it had sold three items below the regular shelf price, but above net purchase cost. These were Nabob coffee, which was sold at a reduction of 6 per cent below the regular shelf price, Javex, sold at 14 per cent below the regular shelf price and Carnation milk at 10 per cent below the regular shelf price. The first and third items were advertised by radio and were in effect for one day at all stores in the chain; the second item, Javex, was advertised by newspaper and constituted one out of twenty items advertised in that way and the reduced price was in effect for ten days in one store only in the chain. Another chain store, although not reporting any specific items as being sold below the regular shelf price but above the net purchase cost, stated that it did sell five articles each week "at actual purchase price or slightly above". These reduced prices were said to be in effect for the full week at all stores in the chain. Another chain reported that it advertised in newspapers about thirty articles per week at prices from 5 to 10 per cent below "the regular selling price". These prices were in effect for two days each week at all stores in the chain. The remaining three chain stores answering this question stated that they did not sell any items during the period in question below the regular shelf price but above the net purchase cost.

Question 7 requested the same information as desired in question 6, but in this case it was to be applicable to private brand articles. Very little specific information was received in the answers on this point, in part, perhaps, because private brands are of minor importance in these smaller chains. One chain store reported that it had sold a single private brand article at 5 per cent below the regular shelf price, that this constituted about one-twentieth of the items advertised by this store during the period in question, and that this

* "Net purchase cost" was defined in the questionnaire as follows: billing total of the invoice (including sales and excise taxes, if applicable) less any special discounts and allowances not shown on the invoice but before cash discount.

price was in effect for three days at all stores in the chain. Three chain stores stated that no private brand article had been sold on the basis set out in question 7, and the remaining replies did not deal with the point.

Question 8 related to the number of nationally advertised or standard brand articles sold at or below net purchase cost, and information was requested for each such item under the four headings noted above for question 6. Only one specific article was reported as being sold below net purchase cost, and this item was reported by one chain store only. The article was Jello and was advertised as a "special" by radio for one day in all stores of the chain and was sold at a reduction of four per cent below the net purchase cost. Five chain stores reported that no nationally advertised item was sold below net purchase cost during the period in question, and the remaining returns did not reply to the question.

Question 9 related to the sale of private brand articles at or below net purchase cost. Six chain stores reported that they did not sell any private brand item at such a price during the period in question, and the remaining chains did not reply to this question.

Question 10 asked for a listing of ten articles, not included in the answers to questions 6 to 9, inclusive, which carried the smallest margins above net purchase cost and also for the specific percentage margins expressed on selling price. One chain store provided a detailed answer to this question and listed ten articles with their corresponding margins as follows:

Butter	- 4 1/2	per cent
Coffee	- 7	"
Tea	- 8	"
Eggs	- 8	"
Sugar	- 10	"
Margarine	- 10	"
Flour	- 11	"
Bread	- 11 1/2	"
Corn Flakes	- 12	"
Soap	- 14	"

Another chain, although not giving specific mark-up figures, listed the following categories of products as those carrying the narrowest margins: butter, milk, eggs, coffee, tea, margarine, flour and soap. Another chain listed three articles in reply to this question without giving any margin data; these items were sugar, butter and eggs. No other replies were received.

Question 11 was an attempt to obtain, for the year 1952, information relating to the five largest selling private branded lines and the five largest selling nationally advertised lines sold at less than the regular shelf price but above the net purchase cost. For each of these items information was requested on the largest discount from the

regular shelf price in effect during this period; in addition the net purchase cost or manufacturing cost at the date of the low selling price was asked for. No specific replies were received to this question. One chain store did indicate that in the nationally advertised category the five classes of product sold on the basis set out in question 11 were: canned milk, soap, canned peas, canned condensed soup and pork and beans; and in the private brand category: canned corn, pork and beans, lard, butter and canned fruit juices. None of the other chains replied to this question.

Question 12 requested information along the same general lines as question 11, but the bench mark against which the items were to be chosen was sale below net purchase cost. No reply was received to this question for the ten chain stores in this group.

Question 13 explored the matter of the trend in the use of "leaders" or "specials" sold below net purchase cost. One chain store stated that there had been no change over the past five years in the proportion of its sales made below net purchase cost. One reported that "due to competition" there had been a tendency for it to increase the proportion of its sales made below net purchase cost, and finally, another chain stated simply that it did not approve of selling below net purchase cost.

In question 14 information was requested as to the reasons items were sold either below the regular shelf price or below net purchase cost as set out in questions 6 to 11, inclusive. One chain reported that it reduced its prices "to combat some of the competitive low advertising". Another pointed out that it used "leaders" and "specials" which were advertised for only a few days "to stimulate and increase business"; and that the permanent low margins on the articles listed in reply to question 10 were necessary "to meet competition". Finally, one chain replied to question 14 as follows:

> "We are competing with [two large integrated chains] by running five 'specials' each week at cost price or slightly above. We started this about two years ago after they introduced the policy. We find that it works fine and does not visibly affect our percentage mark-up, but proves to be a good drawing card."

Two letters were received from chain stores commenting generally upon the matters raised in the questionnaire but not answering the specific questions it contained. Some of the comments in these letters are, however, of interest in relation to the general issues under consideration. One chain store commented on the difficulty in arriving at any clear-cut definition of a "loss leader" because of the problem of determining operating costs for specific articles. The comments of the spokesman for this chain were as follows:

> "As you no doubt know in the grocery business our costs along with other Chains in Canada run from 14 1/2 to 15% across

the whole line of our merchandise.

> In some places we have to sell some lines such as butter and shortening with about a 3 to 4% mark-up. Most of our lines are priced at 16 4/16 to 25%, and to tell you the truth I am not able, for the life of me, to tell you what percentage it costs us to handle a pound of butter as against a can of peaches or a doz. of oranges. I know these items represent three different costs in handling, but I do not know, even if we broke our turn over down into each one of the 2000 items we handle, how we could arrive at a cost for each item.
>
> We are mostly always selling some items at less than the price we paid for same, but not less than our cost, as our costs are changed with markets and in line with the value of merchandise. For instance, we have a heavy stock of tomatoes on hand now and we simply cut our costs in order to enable our stores to sell these at a low price, hoping to be able to have our inventory in a more comfortable position when new pack arrives."

Another merchandising organization that had recently disposed of its retail chain store business, commented as follows upon the growth of the large chain organizations:

> "It would appear to me however, as a layman, that the large chain stores are capturing all the business by better merchandising methods and their willingness to accept a smaller net mark up per dollar, than the independent who would require a tremendous financial lay out to put himself and his plant in a position to compete successfully with most of the new chain stores and as a result in urban centres particularly, the chain stores continue to take over most of the trade."

B. Larger Chain Distributors

The five chain stores in the second group vary in size from one with some 30 units and sales of approximately $70,000,000.00 in 1952, to a chain with the number of units approaching 200, and another chain with maximum sales of $165,000,000.00. The individual replies of the chain stores in this group do not cover, in so far as specific prices are concerned, every separate store in the chain. It was explained to the Director that in as much as a certain amount of autonomy is granted local managers in meeting competition, a detailed check of, say, 150 stores would present obvious and serious problems. In order to reduce the report to be made by these chains to manageable proportions it was suggested that each chain should select one or two cities in which price competition was particularly vigorous as the basis for its detailed report; statements as to the policy purused by the chains were, however, to have general applicability. Hence the reports received should convey an accurate indication of the general policy of the chains with regard to the matters raised in this questionnaire, and they should also provide

accurate detailed information on prices in the more highly competitive areas.

With reference to the first part of question 3 in which information was sought as to whether the items used as "specials" or "leaders" were selected on a local or regional basis or were in effect throughout the chain system, two chains of interprovincial scope replied that it was usual to use the same group of items as "specials" in all stores of the system. One of these chains added that in addition to these overall "specials", comprising five to ten different items, it used an additional five or six lines in certain individual stores where it was desired to undertake special promotion work. One chain reported that "specials" or "leaders" were selected on a regional basis and another that "pricing, whether regular or special, is done in individual areas". The remaining chain in this group did not answer this section of the questionnaire.

The second section of question 3 inquired whether "leaders" and "specials" tended to be used more commonly in some areas or cities than in others and, if so, to list the areas or cities where this was the case. One chain store stated that "specials" and "leaders" tended to be used most commonly by that chain in the large cities in which it operated in order to meet competition from other retail distributors. Three of the remaining chains felt that the use of "specials" was not confined to any particular area, and the fourth indicated that "specials" were used most commonly in those areas in which promotional work was felt to be most necessary and was considered likely to yield the best results. No specific areas were named by this chain.

Question 4 raised the point whether all "specials" and "leaders" were included in newspaper advertisements and also requested an indication of the relative importance of the various means of advertising employed. Since one of the major points raised by those who object to the use of "loss leaders" is that the extensive and costly advertising used, particularly by the chain stores, in making known to consumers the price reductions they are offering, is a decisive factor in weakening the competitive position of the independent retailer, the methods of advertising are of considerable interest. In all cases the major chain stores stated that newspaper advertising was the leading medium employed. One chain store stated that all "specials" which were used throughout the entire chain were advertised in newspapers, but that when additional "specials" were used in certain areas these were not advertised in newspapers but through the use of hand bills which were distributed in the particular area which was served by the chain-store unit in question. Another chain stated that "specials" were occasionally included in hand bills and that window posters were also frequently employed; in special cases, however, if the local manager felt it was necessary to meet competition, the price would simply be changed on the shelf without any advertising whatever. Three chains also stated that radio advertising was used more or less regularly as a supplement to the newspaper advertisements.

It is obvious that no single independent retailer could hope to match the large chain systems in the extensiveness, frequency or variety of advertising used in calling the consumer's attention to the price reductions offered. Indeed, it may be the chains' greater ability to make use of advertising rather than their price reductions themselves that the independent retailer will encounter the greater difficulty in matching. Some independents have, of course, moved to improve their position in this respect through group advertising arrangements.

The fifth question asked what general considerations determined the type of merchandise to be used as "specials" or "leaders". The replies to this question exhibited widely divergent opinions. One chain stated its views as follows:

> "There is no general consideration that determines what type of merchandise will be used at a special price. It is a general practice to use a staple product, but it is by no means limited to the items which are selected because of quality, discounts or popularity of the brand."

Another chain said that "specials" usually were items which carried wide consumer acceptance "plus sufficient mark-up to permit a special price which would be attractive to the consumer . . ."

A somewhat more detailed analysis was provided by one chain store as follows:

> "We look upon leaders and specials as timely or seasonable items which, although 'featured', carry their normal mark-up for the particular occasion or season. Examples would be turkeys at Christmas time and hams at Easter. Lower mark-ups on these items are traditional at these times when the greatest number of people wish to purchase them, and the lower mark-up is compensated for by the larger volume of sales.
>
> However, some confusion on this understanding may exist where market changes from day to day or within a day entail a change downward in price. This particularly applies in the case of perishable items such as fruits and vegetables and is governed by the supply available, the perishability of the items, and the demand for same.
>
> Regarding the commodities mentioned by name in this question, sugar, butter and eggs, for years - as a matter of fact ever since we have been in business - these have been traditionally low mark-up items averaging as follows: sugar 7 per cent, butter 7 per cent, eggs 9 per cent."

Another chain stated that items to be used as "leaders" or "specials" were "mainly determined by prices quoted by competitors and by ready availability of supplies and seasonableness and by price when costs are dropping. Nationally advertised brands very rarely

fulfill these conditions." Finally, it was stated by one chain that "specials" were items "in popular demand and in some cases seasonal in nature. Discounts and allowances when deducted from invoice costs are taken into consideration when establishing retail prices."

Question 6 relates to the period, "the past month", and requests, as pointed out above, information on nationally advertised or standard brand articles sold by the chain store in question above net purchase cost but below the regular sales price. For each item so sold data were requested on four points:

1. The percentage reduction below the regular shelf price.

2. The number of days the reduced price was in effect.

3. Whether the reduced price was in effect in all stores or in only a limited number.

4. The percentage which such price-reduced items constituted of the total number of items advertised by the chain store.

Table I, hereunder, lists forty-six items reported on the above basis. These items were sold in all stores of two multiple-store systems in a highly competitive regional area having a population of approximately one million. In one chain store the advertised specials (24 in number) accounted for approximately 11 per cent of all items advertised during the month-long period. The remaining items (22 in number) constituted approximately 8 to 10 per cent of the grocery items (excluding fresh meats and produce) advertised weekly.

TABLE I

Item	Per Cent Reduction below regular shelf price	Number of days reduced price was in effect	Sold at all stores or only limited number
Daisy Whole Dill Pickles, 16 oz.	16.00	3	All stores in region
Dyson Sweet Mixed Pickles, 16 oz.	14.81	3	All stores in region
Swift's Prem, 12 oz.	14.64	4	All stores in chain
Fab, giant package	14.41	4	All stores in chain
Heinz Tomato Juice, 20 oz.	13.79	3	All stores in region
Clark's Pork & Beans, 20 oz.	12.90	3	All stores in region
Margene Margarine, Pound	12.82	3	All stores in region
Kellogs Corn Flakes, 12 oz.	12.09	4	All stores in chain
Culverhouse Asparagus Tips, 12 oz.	10.81	3	All stores in region
Glenwood Tomato Juice, 20 oz.	10.52	3	All stores in region
Rose Margarine, 1 lb.	10.50	4	All stores in chain
Mazola Oil, 16 oz.	10.25	3	All stores in region
Mil-Ko Powdered Milk, 1 lb.	9.86	4	All stores in chain
Ogilvie Coronation Cake Mix, 14 oz.	9.60	4	All stores in chain
Aylmer B. B. Pork & Beans, 20 oz.	8.88	4	All stores in chain
Daisy Sweet Mixed Pickles, 16 oz.	8.69	3	All stores in region
Kraft Miracle Whip, 16 oz.	8.52	4	All stores in chain
Aylmer Vegetable Juice, 20 oz.	8.28	4	All stores in chain
Atlas Standard Cut Wax Beans, 20 oz.	7.98	4	All stores in chain
Weston Taverne Appetizers, 8 oz.	7.90	4	All stores in chain
Blue Cheer, Large	7.89	3	All stores in region
Aylmer Fancy Tomato Juice, 20 oz.	7.85	4	All stores in chain

Table I, Continued

Clark's Tomato Juice, 48 oz.	7.40	3	All stores in region
Heinz Tomato Soup, 10 oz.	7.40	3	All stores in region
Stokely's C. S. Corn, 15 oz.	7.40	3	All stores in region
Domestic Shortening, Pound	7.40	3	All stores in region
Mountain View Choice Tomatoes, 28 oz.	6.93	4	All stores in chain
Aylmer Ch. Ungraded Peas, 15 oz.	6.88	4	All stores in chain
Trees Peaches - Choice, 15 oz.	6.45	3	All stores in region
Heinz Spaghetti, 15 oz.	6.45	3	All stores in region
Aylmer Ch. Fruit Cocktail, 15 oz.	6.36	4	All stores in chain
Heinz Vegetarian Beans, 15 oz.	6.06	3	All stores in region
Bright's Peaches, 15 oz.	6.06	3	All stores in region
Burns' Spork, 12 oz.	6.06	3	All stores in region
Margene Margarine, 1 lb.	5.50	4	All stores in chain
Clover Valley Link Cheese, 1/2 lb.	4.60	4	All stores in chain
Glenwood Tomato Juice, 48 oz.	4.55	3	All stores in region
Trinidad Grapefruit Juice, 20 oz.	4.37	4	All stores in chain
Domestic Shortening, 1 lb.	4.10	4	All stores in chain
Heinz Tomato Ketchup, 11 oz.	4.00	3	All stores in region
York Lima Beans, 20 oz.	3.33	3	All stores in region
Grand Valley Tomato Juice, 20 oz.	3.33	3	All stores in region
Fountain Tomatoes, 28 oz.	2.77	3	All stores in region
Crunchie Sweet Mixed Pickles, 16 oz.	.90	4	All stores in chain
Crunchie Sweet Mustard Pickles, 16 oz.	.90	4	All stores in chain
Jack and Jill Peanut Butter, 16 oz. mason jar	.35	4	All stores in chain

The remaining chain stores indicated that during "the past month" they had not sold any nationally advertised or standard brand article at a price above net purchase cost but below "the sum of net purchase cost plus a margin deemed adequate to cover its appropriate share of total operating expenses and profit". One chain store stated:

> ". . . this company on any nationally advertised product sold, allowed a mark-up to cover net purchase cost plus a margin which this company deemed adequate to cover the appropriate share of total operating expenses, and profit."

Another chain store, replying to this question, stated that it had not sold any items during "the past month" on the basis described in question 6. The writer added, "however, prices are adjusted from time to time to meet lower prices and maintain our competitive position and here also some misunderstanding may occur if a thorough understanding of merchandising practices in this respect is not understood. For instance, although a given item may not carry as high a mark-up as other items, the volume of sales would allow it to cover its appropriate share of total operating expenses and profit."

Inquiries were directed to the chains concerned in order to make clear from these latter replies whether items that were advertised were sold at no reduction from the regular price or whether the reduced price in effect for the period of the "special" was considered to be compensated for by the increased sales of this item during the period in question. In both cases it was stated that no item was sold and advertised during the period in question below the regular mark-up. There still remains the possibility that the regular mark-up in effect in these stores for certain items was substantially lower than that in effect in competing stores. However, the regular low mark-ups at which certain items are moved to the consumer, such as is the case with sugar, butter, eggs and other items that will be referred to in the answers to question 10, fall in a different category of competitive behaviour than a sharp reduction which is in effect for only a short period of time.

Question 7 requested the same information as set out above for question 6, but with reference to private brand articles. Table II sets out the five items reported under this question. Sockeye salmon represented approximately one per cent of the items advertised by the given chain during the week in which this special was offered; the four tea and coffee items were reported as representing 2.55 per cent of all items advertised during a period of one month. Another chain indicated that "generally speaking" it was their practice to maintain the same price on their private brand articles "whether shelf or advertised". Only in exceptional cases did they deviate from this policy and during the period in question there was no such deviation. The remaining chains stated that it was not their policy to sell private brand articles at a price less than sufficient to cover net purchase cost plus a margin considered adequate to cover the appropriate share of the total operating expenses and profit allocable to the item in question.

TABLE II

Item	Per Cent Reduction below regular shelf price	Number of days reduced price was in effect	Sold at all stores or only limited number
Fancy Red Sockeye Salmon, 7 3/4 oz.	12.5	4	All stores in chain
Coffee	7.0	1	All stores in one city
Coffee	4.0	1	All stores in one city
Coffee	4.0	1	All stores in one city
Tea	5.5	1	All stores in one city

Question 8 referred to the number of nationally advertised or standard brand articles sold at or below net purchase cost and requested for each such item information on the four points set out above for question 6. Three chain stores reported that they had sold no such article at or below the net purchase cost during the period in question. In the case of the two remaining chains one item was sold by each at less than net purchase cost, and in both cases special circumstances accounted for the sale. In the one case the item was a hold-over from the previous season. The circumstances were explained to the Director as follows:

> "It was evident that it would be impossible for us to clear this commodity prior to the arrival of the new pack. In addition, the market was down on this item and there was an over-supply. As a first measure, we approached the supplier and asked that we be relieved of the available quantity on hand and as this request met with a negative response, we had no alternative other than to dispose of this commodity at a price which would clear the quantity on hand."

The item was sold at 18 per cent below the net purchase cost and was offered for sale in all stores in the chain for a period of two and one-half months. In the other case of the sale of an article below net purchase cost the reduced price was the result of an error in pricing two very closely related articles, namely, canned luncheon pork in the round can and in the oblong can. The price for the former, which is the lower-cost item, was applied to the latter, resulting in the sale of the oblong tin at a price a fraction of a cent less than the net purchase cost. This price was in effect for four days only. The firm offering this item informed the Director that it was the policy of their company "not to sell merchandise in the regular way as a leader at a price below the invoice cost of the merchandise."

Question 9 referred to the sale of private brand articles at or below net purchase cost and again requested information on the four points listed above under question 6. Four companies replied that no private brand article had been sold during "the past month" at or below net purchase cost, and two of these stated that the policy of their company did not permit the sale of private brands of merchandise below the cost of production or the cost of purchasing if the item was expressly packed for them. One chain store reported the sale of two private brand articles, coffee and tea, during "the past month" at or below net purchase cost. The coffee was offered twice during this period and the tea once in one city only and in each case for one day only. On the one occasion when the coffee and tea were advertised together they were both offered at 2 per cent below the net purchase cost; on the occasion when the coffee was offered as the only item sold below net purchase cost it was sold at a reduction of 1/2 of 1 per cent. During the month in which these items were advertised they accounted for 1.02 per cent of the total number of items advertised by this store.

Question 10 requested a listing of ten articles not included in the answers to questions 6 to 9, inclusive, which carried the smallest margins above net purchase cost and also the specific margins expressed on selling price. Table III lists the sixty items reported (one of the five chain stores reported for two separate divisions of the chain) with the mark-up applicable to each. The significant proportion of the total accounted for by butter - 4, sugar - 4, eggs - 3, soap and soap powders - 6, is apparently a long-established characteristic of the trade in grocery products. The remaining items would suggest that milk, corn syrup, macaroni and coffee are, perhaps, finding a place in the group of low-margin staples. The grade of canned salmon included in the reports may also properly belong in this group, although it is an item which has for some time been experiencing a decline in price under the impact of ordinary market forces and may, with canned pork luncheon meat, be the subject of special promotional effort. In addition to the apparent extension of the low-margin staples to include new categories of grocery products, many of which are of particular concern to those with low incomes, it is of interest to note that narrow mark-ups apply to a variety of non-staple canned foods as well.

TABLE III

Article	Per Cent Mark-up On Selling Price
Flour, millers' brands	9.07
Five Roses Flour, 7 lb. bag	7.50
Quaker Oats, 48 oz.	4.06
Quaker Oats, 14 oz.	5.27
Butter	4.00
Butter	7.70
Butter	5.00
Butter	4.16
Rose Margarine	5.00
Swift'Ning Shortening, 1 lb. pkg.	4.50
Shortening	10.14
Eggs	7.80
Eggs	5.81
Eggs	5.49
Sugar, 2 lb. bags	6.25
Sugar	7.78
Sugar, 25s and 100s	8.30
Sugar, 100s	5.63
Sunlight Laundry Soap	5.38
Sunlight Laundry Soap	5.10
Sunlight Laundry Soap	4.50
Sunlight Laundry Soap	5.28
Surf - pkg.	8.33
Soap powders	10.85
Spic & Span - pkg.	9.48
Banquet Tomato Juice Fcy., 20 oz.	6.90
Sunny Dawn Tomato Juice	5.50
Canned Sockeye Salmon - halves (National brands)	8.00
Canned Sockeye Salmon (private brand)	3.00
Clover Leaf Sockeye Salmon - halves	7.90
Fairhaven Sardines	9.78
Brunswick Sardines	9.00
Prem	9.00
Klik	5.00
Maple Leaf Ham, 1 1/2 lb. tin	8.00

Table III, Continued

Article	Per Cent Mark-up On Selling Price
Beehive Corn Syrup, 2 lb. tin	7.75
Beehive Corn Syrup, 5 lb. tin	7.62
Corn Syrup, 2 lb. tin	7.76
Lancia Long Spaghetti, 5 lb.	4.76
Catelli Cooked Macaroni, 28 oz. tin	4.00
Windsor Salt - 2 lb. pkg.	8.00
Libby's Catsup	7.40
Pasco Blended Juice, 48 oz.	4.80
Fancy Small Shrimp, 5 oz.	6.11
Evaporated Milk, 16 oz.	8.50
Canned Milk	10.63
Fresh Milk	6.79
Fresh Milk	10.00
Coffee, National Brands	8.71
Coffee, Private Brand	8.71
Burford Canned Peaches	3.50
Libby's Sliced Pineapple	4.00
Clark's Pork & Beans	3.00
Campbell's Vegetable Soup	3.00
Bread, 14 oz. loaf	7.14
Aylmer Peas 4 - 5; Choice 15 oz.	8.61
Aylmer Fruit Cocktail, Fcy. 15 oz.	9.12
Oka Cheese, 1 lb. pkg.	1.40
Borden's Sliced Cheese, 1/2 lb. pkg.	7.30
Cottage Cheese	11.30

The proportion of items selling at a mark-up of 6 per cent or less on selling price is particularly worthy of note since a figure of roughly this magnitude (to be precise, 6 per cent on cost price) is specified as the mark-up below which sales of certain products, including grocery products, are prohibited by legislation in a number of the States of the United States. Of the sixty items reported in Table III, twenty-five were made available to consumers at a mark-up on selling price of 6 per cent or less. The items in this special low-margin group were, with a few exceptions, staple grocery articles. Not all chain stores reporting pursued the same mark-up policy even for the major staples. In the case of butter, for example, mark-ups ranged from a minimum of 4 per cent on selling price to a maximum of almost double that figure, 7.70 per cent. For 100-pound bags of sugar the mark-up fell as low as 5.63 per cent and rose as high as 8.30 per cent. The mark-up on canned sockeye salmon ranged from a low of 3.00 per cent on a private brand to 8.00 per cent on national brands. Eggs showed a less marked, but still substantial, range, as did flour. Each of the retail chain groups presumably chooses a range of mark-ups that will, taking all factors into account, give it the optimum return over its whole array of lines. That they should differ so greatly in their choice of mark-ups on major staples strongly suggests that a high degree of flexibility in determining price policy is characteristic of this sector of the retail food distribution field.

Question 11 was included to obtain information for the year 1952 on the five largest-selling nationally advertised lines and the five largest-selling private brand lines sold at less than the regular shelf price but above the net purchase cost. Three chain stores stated that they had no items to report under this question. The two remaining chains listed the items shown in Table IV in reply to this question. The large role played by soap and soap powders is clear from this table. Shredded Wheat was also an item favoured by these two chains, but the five remaining items cover a rather wide field. In the case of one chain store the items were offered for a period of three days and in the other chain store for a period of four days.

TABLE IV

Item	Reduction From Shelf Price	Net Cost
	%	
Nationally Advertised Brands		
Shredded Wheat, pkg.	12.12	13.92¢ each
Shredded Wheat, pkg.	11.90	13.87¢ "
Campbell's Tomato Soup, 10 oz.	8.00	10.75¢ "
Heinz Tomato Ketchup, 14 oz.	14.28	23.83¢ "
Gold Seal Sockeye Salmon, 1/2s	5.12	35.33¢ "
Tide, pkg.	7.89	33.83¢ "
Sunlight Soap, bar	11.80	9.15¢ "
Lux Toilet Soap, bar	12.80	7.30¢ "
Jello Jelly Powders, pkg.	11.60	8.33¢ "
White Swan Toilet Tissue, roll	3.30	10.10¢ "
Private Brands		
Eggs, ctn.	8.88	40.50¢ doz.
Butter, 1 lb.	2.89	65.00¢ lb.
Cheese, 1 lb.	14.03	41.00¢ "
Salmon, 7 3/4 oz. tin	14.40	36.58¢ each
Tea, 16 oz.	6.34	52.00¢ lb.
Tea, 16 oz.	8.00	49.00¢ "
Tea, 8 oz.	8.40	26.00¢ each
Coffee, 16 oz.	4.30	80.42¢ lb.
Ginger Ale, 30 oz.	8.10	12.50¢ each
Lime Rickey, 30 oz.	6.80	12.33¢ "

The private brand lines reported by the two chains are also shown in table IV. Since different chains have varying groups of commodities as private brands the items included in their report to the Director may reflect as much the lines available for price reduction as the lines that are regarded as being especially effective in attracting customers. It is noteworthy, however, that tea and coffee account for four of the ten items reported and, if the two soft drink articles are added, beverages account for 60 per cent of the items in this group. Again, the special prices on these articles were in effect in one chain store for three days and in the other for four days.

The cost data in Table IV indicate one aspect in which the nationally advertised lines and the private brand lines differ markedly. The private lines were, on the whole, considerably more expensive than the nationally advertised lines. The average net purchase cost for the ten nationally advertised lines was 16.64¢ compared with an

average net purchase cost, or manufacturing cost, of 41.53¢ for the private brand lines; only two of the nationally advertised brands had a net purchase cost in excess of 25¢, and only two of the private brand lines had a net purchase cost, or manufacturing cost, of less than 25¢.

Question 12 requested the same general information as question 11 but the items reported were to be those sold below net purchase cost. Only one chain store provided a report on items in this category, the remaining four indicating that no such cases could be discovered. With reference to the single chain reporting, the items involved were a nationally advertised brand of instant coffee and a private brand of the same product. The price reductions for these items were made to meet competitive prices offered by a large retail distributor in one city in which the chain store operated. The price for the nationally advertised brand was reduced at the lowest point to less than half of its net purchase cost, and the selling price on the private brand article was reduced at the lowest point to approximately 56 per cent of its net cost. Both products sold at less than the net purchase cost for approximately one month and in only one city.

Question 13 asked the chain stores to state whether there had been any tendency over the past five years to increase, to diminish or to leave unchanged the proportion of its sales made below net purchase cost. Three of the chain stores stated that the policy of their companies did not permit sales below net purchase cost and that there had been no change in their policy over the past five years; another chain stated simply that there had been no change in its policy as to selling merchandise below net cost during the period in question. One chain store, however, provided a more detailed statement of its merchandising policy:

> "The basic principle of . . .'s pricing policy is to give the consumer the benefits of savings resulting from its way of doing business by pricing at the lowest point that will yield a reasonable profit. It is . . .'s established policy to meet the lowest price of every competitor, item by item, day by day, and town by town. Each town or marketing area must be considered as a separate pricing problem and studied individually to determine what competitive prices must be met. It is contrary to . . . policy to offer merchandise at prices below its net purchase costs, unless it is necessary to do so by reason of competitive pricing situations or changing conditions affecting the market for or the marketability of the merchandise, such as actual or threatened deterioration of perishable merchandise, obsolescence of seasonal merchandise, etc."

Finally, in question 14, an opportunity was given the chains to elaborate upon the role of "leaders" and "specials" in the merchandising of grocery products. On the whole, the replies were not informative. One chain stated that it had employed the price reductions referred to in the questionnaire "to meet competitive prices". Another stated that it had always been the practice to advertise some merchandise

below the regular selling prices for week-end selling, and added, "this is universal in the retail food business on the North American continent". Finally, one chain pointed out that "specials" as employed by itself had a two-fold purpose: They were "offered to our customers as genuine savings and as an incentive to shop in our stores".

Supplementary to the replies to the questionnaire, one chain included a definition of a "loss leader" as "a sale made at a price below the lower of invoice or resale cost with the intention or purpose of injuring or destroying competition or misleading customers". It then went on to point out that this definition did not, in its view, apply to any sale made

"1. In closing out in good faith the seller's stock or any part of it for the purpose of discontinuing dealing in such article or product;

2. For the purpose of preventing loss by spoilage or depreciation in the case of seasonal or perishable goods;

3. When the goods are damaged or deteriorated in quality and notice of that fact is given; or

4. In good faith to meet competition."

This chain added that none of the items referred to in its answers fell within this definition of a "loss leader".

(It will have been noted that the replies to the above questions did not include reference to fresh produce or meat. Because of obvious difficulties associated with rapid changes in the cost of such items, as well as with questions of comparability of quality and condition, these items were expressly omitted from the questionnaire.)

ANNEX I

DIRECTOR OF INVESTIGATION AND RESEARCH
COMBINES INVESTIGATION ACT
OTTAWA

Room 746, Justice Building
June 11, 1953

Dear Sir:

Some months ago the Combines Branch began a study of "loss-leader" selling and invited replies to and comments on a number of questions relating to the frequency, nature and effects of this practice.

The replies made it clear that complaints about "loss-leaders" were frequent in the field of grocery products. In order to obtain more detailed and precise information about the frequency of use of "leaders" or "specials" and the degree of price reductions in this field, it would be appreciated if you would provide the information requested on the enclosed questionnaire.

If you would care to add further comments on the function or significance of "leaders" and "specials" in the merchandising of grocery products, I would be very glad to have them.

It would be of substantial assistance to me if you could send me the requested information at the earliest date possible. I regret having to trouble you further but I find this additional information essential to the inquiry.

Yours very truly,

T. D. MacDonald
Director

Annex I, Continued

QUESTIONNAIRE ON "LEADERS" & "SPECIALS" IN THE MERCHANDISING OF GROCERY PRODUCTS

1. State the number of stores in your chain in Canada.

2. State the total retail sales (in dollars) for your chain in 1952.

3. (a) At a given time are specific "specials" or "leaders" sold in every store in your chain system or are the items to be used as "specials" or "leaders" selected regionally or locally?

   (b) If "specials" or "leaders" tend to be used more generally in some areas or cities than in others, please list the areas or cities in which they are most common.

4. Are all "specials" or "leaders" included in newspaper advertisements? If not, indicate the various means of advertising employed and their relative importance.

5. Are there any general considerations that determine what type of merchandise will be used as "specials" or "leaders" in your stores, such as the nature of the commodity (e.g. sugar, butter, eggs, meat, etc.), the seasonableness of the item, the price of the item (low-priced, medium-priced, or high-priced), the discounts and allowances obtained from suppliers, whether the product is nationally advertised or a private brand, and so on?

6. During the past month has your firm

   (a) sold any nationally advertised (or standard brand) article at a price above net purchase cost* but below the sum of net purchase cost plus a margin deemed adequate to cover its appropriate share of total operating expenses and profit?

   (b) if so, show percentage reduction below net purchase cost plus the margin mentioned above for each specific article.

   (c) Approximately what percentage did such items constitute of the total number of items advertised by your stores?

   (d) For how many days was the reduced price on each item listed in (b) in effect?

   (e) Please indicate at what store or stores each such item was so sold.

7. During the past month has your firm

   (a) sold any private brand article at a price above net purchase cost* but below the sum of net purchase cost plus a margin

deemed adequate to cover its appropriate share of total operating expenses and profit?

(b) if so, show percentage reduction below net purchase cost plus the margin mentioned above for each specific article.

(c) Approximately what percentage did such items constitute of the total number of items advertised by your stores?

(d) For how many days was the reduced price on each item listed in (b) in effect?

(e) Please indicate at what store or stores each such item was so sold.

8. During the past month has your firm

(a) sold nationally advertised (or standard brand) articles at or below net purchase cost?

(b) if so, show percentage reduction below net purchase cost for each specific article.

(c) Approximately what percentage did such items constitute of the total number of items advertised by your stores?

(d) For how many days was the reduced price on each item listed in (b) in effect?

(e) Please indicate at what store or stores each such item was so sold.

9. During the past month has your firm

(a) sold private brand articles at or below net purchase cost?

(b) if so, show percentage reduction below net purchase cost for each specific article.

(c) Approximately what percentage did such items constitute of the total number of items advertised by your stores?

(d) For how many days was the reduced price on each item listed in (b) in effect?

(e) Please indicate at what store or stores each such item was so sold.

10. During the past month what ten articles, not involved in your answers to questions 6 to 9 inclusive carried the smallest margins above net purchase cost and what were such margins (expressed on selling price).

11. (a) With reference to the items sold by your firm during 1952 above net purchase cost but below the sum of net purchase cost plus a margin deemed adequate to cover their appropriate share of the total operating expenses and profit, list the five largest selling nationally advertised brands and the five largest selling private branded lines sold on this basis, and list (1) the largest discount below the above described total in effect during the year on each of these items and (2) the net purchase cost or manufacturing cost at the date of the lowest selling price.

(b) For how many days was the reduced price on each item listed in (a) in effect?

12. (a) With reference to the items sold below net purchase cost by your firm in 1952, list the five largest selling nationally advertised brands and the five largest selling private branded lines sold on this basis, and list (1) the largest discount below net purchase cost in effect during the year on these items and (2) the net purchase cost or manufacturing cost at the date of the lowest selling price.

(b) For how many days was the reduced price on each item listed in (a) in effect?

13. On the whole, has there been a tendency for your firm over the past five years to increase, to diminish, or to leave unchanged the proportion of its sales made below net purchase cost?

14. What were the reasons for departing from your general pricing policy in the case of sales of items described in questions 6 to 11 inclusive?

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* Net purchase cost means billing total of the invoice (including sales and excise taxes, if applicable) less any special discounts and allowances not shown on the invoice but before cash discount.

VII. SURVEY OF PRICE REDUCTIONS IN DRUG STORE SALES IN MONTREAL

It was brought to the attention of the Director that price reductions had been made during the summer months of 1953 on a wide range of drug store items in the city of Montreal. In order to obtain further details bearing on the extent of the price reductions and, if possible, on their effects, a questionnaire, which is attached as Annex I, was sent out on August 31, 1953, to one hundred and eighty retail druggists in the city of Montreal. In addition, a compilation of the price reductions offered in newspaper advertisements during the period March 1, 1953 to July 15, 1953 was made.

A. Distribution of the Questionnaire

The list to which the questionnaire was sent was made up of one hundred and nine drug stores which had advertised price reductions in the daily newspaper, and seventy-one drug stores which did not advertise price reductions. Fifty stores in this latter group were selected because of their proximity to stores offering reduced prices and the remaining twenty-one stores were chosen on a random basis.

Replies were received covering a total of seventy-seven drug stores of which twenty-six were units of incorporated chains and forty-six were members of co-operative advertising and/or buying groups. Total annual sales for seventy-three of the seventy-seven units (four units failed to provide the requested information on annual sales) totalled $8,253,000.00. Fifty-seven of this group had offered price reductions on drug store items during the period covered by the questionnaire (June and July, 1953), and twenty of the drug stores replying had not offered price reductions. The fifty-seven drug stores reporting that they had offered price reductions did not come entirely from the list of one hundred and nine drug stores that had advertised price reductions; more precisely, forty-five came from the group who advertised lower prices and twelve came from the "control" stores. Of the twenty drug stores reporting that they had not reduced prices, three came from a large group of drug stores that had co-operatively advertised reduced prices* and seventeen came from the "control" group, and of this latter group thirteen also belonged to co-operative buying or advertising groups that advertised comparatively few price reductions. The division of the replies into various categories is summarized as follows:

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* The advertising was in the name of the Group without mention of specific stores.

Total number of replies	Number which reduced prices	Number which did not reduce prices
77 of which	57 of which	20 of which
26* were chain units	26* were chain units	16 were members of co-operative buying and/or advertising groups.
46 were members of co-operative buying and/or advertising groups.	30 were members of co-operative buying and/or advertising groups.	
5 were independents	1 was an independent	4 were independents

* 4 chain units also belonged to co-operative advertising and/or buying groups.

Not all seventy-seven replies provided data on all the questions included in the questionnaire. Fifteen replies did not provide the data requested in question 8 on the monthly volume of sales; questions 6(b) and 7(b) relating to the number of articles that were reduced in price were not answered in seven of the replies; and ten replies did not list the dates when price reductions began and ceased as requested in question 9. On the whole, however, the questionnaires were completed in the detail desired.

B. Number of Items Sold Below Suggested or Ordinary Shelf Price But Above Net Purchase Cost

Of the fifty-seven drug stores reporting price reductions, seven, as already pointed out, although listing some articles as being reduced in price, did not state the exact number so offered, three reduced prices below net purchase cost only but did not offer any item in the range set out above, and two stated that they had reduced prices on cigarettes alone. The remaining forty-five drug stores offered the following numbers of items at less than the suggested list price but above net purchase cost:

Number of Items	Number of Drug Stores	Average Annual Sales Per Unit	Range of Annual Sales
		$	$
Fewer than 15	6	79,200	45,000-100,000
15 - 24	8	70,200	34,000- 94,000
25 - 34	8	111,700	45,000-150,000
35 - 44	2*		- - -
45 - 54	1	not shown	- - -
55 - 64**	19	117,800	55,000-121,000
"Approx. 200"	1	100,000	- - -
Total	45		

* Of the two drug stores in this group, one had annual sales of approximately $60,000 and the other had the largest sales volume reported for an individual drug store outlet.

** This range includes one drug store which reported the number of items as being "60-75".

C. Number of Items Sold Below Net Purchase Cost

Of the fifty-seven drug stores reporting that they had reduced prices during the period under survey, seven did not reply to the question requesting information on sales below net purchase cost, twenty-three drug stores stated that they did not sell any items below net purchase cost and one stated that only cigarettes were sold below the level specified. The remaining twenty-six drug stores offered the following numbers of items at less than net purchase cost:

Number Items	Number of Drug Stores	Average Annual Sales Per Unit	Range of Annual Sales
		$	$
Fewer than 10	20	119,000	49,000-148,000
11 - 15	2	93,000	70,000-116,000
- - -	- - -		- - -
31 - 35	1	100,000	- - -
51 - 55	2*	82,000	- - -
- - -	- - -		- - -
61 - 65	1	100,000	- - -
Total	26		

* Only one of these two drug stores provided information on annual volume of sales.

D. Manner of Advertising Price Reductions

The questionnaire requested information on the various media employed in advertising the price reductions made by the drug store. Individual newspaper advertisements were made by ten different firms covering thirty drug stores. Co-operative newspaper advertising was reported by twenty-one drug stores, and of these three also advertised individually. In the case of 35 drug stores, window announcements were employed; in three cases radio advertisements were used; special price cards were used inside the store in two cases, and hand bills in one case. Every drug store offering price reductions employed advertising of some type; only one drug store used four media: individual newspaper advertisements, co-operative newspaper advertisements, window announcements and radio advertisements, and its annual sales volume was in the neighbourhood of $50,000.00. The most popular method of advertising was a combination of newspaper (either individual or co-operative) and window announcements. It is worth noting, however, that the drug store offering the largest number of price reductions (approximately 200) used only window announcements and price cards inside the store, and that four drug stores used window announcements only to advertise their price reductions. This latter group does not appear to have suffered in volume of sales as a result of its limited advertising. In fact, the members of this group enjoyed a higher percentage increase in sales up to August, 1953, as compared with the comparable month of 1952, than was the case with the other drug stores making price reductions and employing more diversified advertising methods. It may be that special circumstances account for the experience of these

four drug stores but it is clear that costly advertising was not of basic importance to their improved position.

E. Dates When Price Reductions Began and Ceased

The question relating to the dates when the price reductions first went into effect and when they ceased was answered specifically for forty-seven drug stores. In addition, one reported that the price reductions had been in effect for "about a year". The dates, by months, on which price reductions were reported as being first introduced were:

In March	-	19	drug	stores
April	-	2	"	"
May	-	10	"	"
June	-	13	"	"
July	-	3	"	"
	Total -	47	"	"

Of these forty-seven that reported the initial dates on which prices were reduced, four left the space for the date on which price reductions ceased blank. If such cases are construed as meaning that price reductions are still in effect, the dates, by months, on which price reductions ceased were reported as follows:

June	-	1	drug	store
July	-	9	"	"
August	-	9	"	"
September	-	19	"	"
Still in effect	-	9	"	"
	Total -	47	"	"

It would appear from these data that price reductions became fairly common not later than May and, although still in effect, at the time the questionnaires were completed, in a substantial proportion of the drug stores reporting, were employed by a declining number of drug stores from July on. Hence the months of May, June and July would appear to be the period when price reductions were most widely used by the drug stores reporting.

F. Special Factors Affecting Volume of Sales During January - July, 1952 and 1953

In an attempt to isolate fluctuations in the volume of sales that could be attributed to special factors affecting individual stores, a request was made in question 8 that such factors be listed along with the monthly sales figures. Among those drug stores that did not reduce prices there were only three that considered such special factors had affected their record of sales: One pharmacist pointed out that he had started in business during the period under review and hence his business was experiencing a gradual expansion as he built up a clientele; another explained his decline in sales during a certain period by illness; and a third commented, "This being a dispensing pharmacy in a medical building we are not affected by the cut price war at present."

Comments relating to special factors that affected sales were made by six drug stores that reduced prices. One explained the behaviour of sales in March and April, 1953, as being due to the fact that fewer seasonable items were sold "such as cold and cough remedies." This factor might be expected to affect most drug stores in the area in similar degree. Another stated that he had moved into a larger and more modern store. In the case of another drug store it was explained that the store had been opened in January, 1951, and the clientele was still growing. The remaining comments appear to be related more directly to recent competitive developments than to special circumstances which affected the individual stores alone. These comments are as follows:

> "Le fait que le volume de mes ventes se maintient n'est pas une indice de prospérité pour nous. Nous suivons les ventes à prix coupés pour garder notre clientèle et notre bénéfice décroit."

> "J'ai eu une augmentation de 53 sur 52 qui aurait été plus forte sans la concurrence déloyale de certains gros pharmaciens qui peuvent se permettre l'annonce dispendieuse."

> "Publicité plus intense, primes."

On the whole, these special factors would appear to have about equal weight in the two groups and they are, furthermore, of a nature more or less common to the ordinary expansion and contraction of individual firms. While some firms are gaining clients others are often losing clients. Hence, the data reported by the drug stores referred to above are included in the totals and averages subsequently computed.

G. Average Volume of Sales for Drug Stores

In order to provide a measure of the comparative size of the drug stores that reported price reductions and those that reported no price reduction, averages of monthly sales volume were computed for these two broad categories as well as for certain sub-divisions within each category.

Forty-nine drug stores that reported price reductions also reported their monthly sales volume. One of these (Montreal Pharmacy) had a monthly sales volume so much greater than the remaining forty-eight that to include it in the average would give a result that would not be representative of the sales of the whole group. Hence the sales of this drug store are not included in the averages for those outlets that reduced prices.

The average monthly sales for the period January - July, 1953 (inclusive), for the remaining forty-eight drug stores were approximately \$9,050 per store. The twenty-six chain store units in this group had monthly sales of approximately \$10,840 per unit, and

the twenty-two drug stores that were members of advertising and/or buying groups had monthly sales of approximately $6,970 per store. There were two major co-operative advertising and/or buying groups. The average size of the stores in the two groups differed substantially: the fifteen stores in Group "X", which advertised a larger number of price reductions than the stores in Group "Y", had average monthly sales of about $7,600, compared with average monthly sales of about $5,200 for the six stores in Group "Y".

For the chain store units the range of monthly sales was relatively narrow, the minimum being about $8,500 and the maximum about $11,500. The members of the advertising and/or buying groups had monthly sales ranging from a minimum of about $3,000 to a maximum of about $11,000.

The thirteen drug stores that reported no price reduction and also reported their monthly sales volume were made up of eleven members of advertising and/or buying groups and two "independents". The average monthly sales for the thirteen drug stores in this category were approximately $5,220. The drug stores that were members of advertising and/or buying groups had average monthly sales of about $5,620, ranging from a minimum of about $2,300 per month to a maximum of about $11,000 per month. The three drug stores that did not reduce prices and belonged to Group "X" of the advertising and/or buying groups had average monthly sales of about $3,900, whilst the eight drug stores belonging to Group "Y" had average monthly sales of approximately $6,300. The "independent" drug stores had average sales of about $3,000 per month, one store having sales of about $1,000 per month and the other sales of about $5,000 per month. Hence, although there were individual drug stores among those that did not reduce prices that were as large as the largest in the group that did reduce prices (with the one exception noted above), the average size of the stores in the latter group was substantially larger than the stores in the group that did not reduce prices.

The average per month sales figures may be summarized as follows:

	Over-all Average	Chain Stores	Advertising and/or buying groups	"Independents"
	$	$	$	$
Drug stores that reduced prices	9,050	10,840	6,970	- -
Drug stores that did <u>not</u> reduce prices	5,220	- -	5,620	3,000

H. Factors Determining What Items Were Sold at Reduced Prices

Question 10 asked if there were any general considerations determining what items were sold below the supplier's suggested price or the ordinary shelf price, and a few factors commonly advanced as the basis for selecting articles to be reduced in price were listed, although the pharmacist completing the questionnaire was free to specify any factor he considered important.

There were nineteen replies to this question, one or two of which extended to other aspects of the price competition that had developed. However, since these comments are of interest, *per se*, they are included in the following summary. The most important factor reported by those who answered this question as determining what items were reduced in price was "Competition". The only other consideration receiving any considerable support was the frequency of consumer use of the item.

The detailed replies are as follows:

"Demand large - fast sellers"

"Price-cutting"

"Les articles qui ont subis une réduction de prix sont des articles courants qui se vendent à l'année et ne connaissent pas de saison donc aucune raison de couper. Sans profit le petit comme le gros ne peuvent exister; mais la petite pharmacie du coin n'a pas le volume pour se racheter et pourtant elle est beaucoup plus utile à la communauté."

"Items selected were always those which were advertised at reduced prices by other pharmacies."

"Usage fréquent par l'acheteur"

"Compétition - annonces dans les journaux par nos compétiteurs"

"Usage fréquent par le consommateur"

"Je crois qu'un profit brut d'environ 33% n'est pas exaggeré et qu'il n'y a pas de raison de vendre tout produit à un profit inferieur."

"Competition"

"Frequency of consumer use - nationally advertised items."

"Compétition"

"We meet anybody's retail price, even if below our cost."

"Compétition et pour créer du traffic."

"Competition"

"The frequency of consumer use."

"No. All due to price war."

"Competition in price of these items."

"Competition"

"The frequency of consumer use of the item."

I. Reasons for Departing from the Suggested or Ordinary Shelf Price

Those drug stores that reduced prices below the supplier's suggested price or the ordinary shelf price were asked, in question 11, to specify their reasons for doing so. Thirty-four drug stores replied to this question. Of these, 15 reported directly that their reason for reducing prices was "competition". The remaining replies, which are quoted in full, emphasize, with very few exceptions, the same view.

"Indiscriminate cutting by large store caused loss of volume and clientele. We operated at a loss during price war."

"To try and bring in more customers."

"Price-cutting"

"The reasons are to retain customers who went out of their way to buy loss leaders advertised by large pharmacies or chain drug stores. Since the minimum retail price maintenance was abolished, large pharmacies and chain drug stores advertise certain branded items, and if smaller pharmacies want to keep their customers they have to match those prices, which in the long run will probably ruin the smaller stores."

"Compétition et aussi la nouvelle loi abolissant la fixation des prix par le manufacturier."

"Compétition de nos compétiteurs - Annonces dans les journaux. - Remarques des clients - Protection de notre commerce."

"Le client nous fait la remarque sur prix régulier que nous lui demandons et avise des prix coupés qu'il a lus dans les journaux."

"Deux magasins (épicerie) vendent les cigarettes auprès de 33 et après un certain temps, J'ai suivi."

"Afin de vérifier si le public remarquait cette diminution de prix - le résultat fut pratiquement nul."

"Les grandes pharmacies annoncaient à grandes pages dans les journaux et si j'ai suivi les prix annonces ce n'est que dans le but de conserver ma clientèle. Il ne faut pas oublier que le coût d'administration étant très élevé, les prix coupés ne sont qu 'un trompe-l'oeil. En effet, il faut dans l'ensemble réaliser un profit raisonnable. De ce fait, si je vends un produit au prix coûtant, je serais obligé de surcharger d'autres produits vendus pour faire l'équilibre dans mon commerce. Je crois qu'il en est ainsi pour tous les genres de commerce actuellement."

"Prices were being cut by large drug store and 2 drug chains and still are to a lesser degree. A bigger outbreak may come any day."

"To meet prices advertised by other stores."

"Meet competitive prices."

"Pour suivre la compétition des autres pharmacies. Il nous a fallu suivre et vendre à perte."

"Competition & fear of loss of volume due to competitors cutting prices below ordinary shelf prices."

"Compétition des autres pharmacies, surtout les pharmacies à 'chain'."

"Pour créer du traffic."

"Meet competition to keep my customers even if I have to close my door in a few years!"

"Due to unfair competition from some drug stores inadvertently slashing prices."

In addition, two letters were received from pharmacists commenting in somewhat greater detail upon the price competition that developed in drug store products:

"Je suis au service du public en pharmacie, depuis 34 ans, et je crois que les annonces à prix coupés, dans notre profession, est au detriment du public. L'article annonce à perte, est, en général, de bonne qualité, et le client qui désire cet article va chez son pharmacien qui lui suggére une marchandise inférieure en qualité mais qui laisse a celui-ci, un profit plus élevé; notre prestige auprès du public joint à nos qualités de vendeur,

influence le client qui achète l'article suggéré. D'autres consideration d'ordre moral, que je ne peux décrire ici, interviennent comme facteur important; entr'autre, la majoration des prix sur les prescriptions, qui compense pour la vente à perte au comptoir.

. . .

Et je crois également, qu'on devrait abolir l'annonce à prix coupé ou mieux encore, l'annonce 'tout court' du prix des medicaments, et permettre aux manufacturiers d'imposer le prix de vente au comptoir de leurs produits, et ce, sous le controle d'une commission nommée par le gouvernement, dans le but d'enrayer les ventes à prix coupés ou une prise de bénéfice exagéré.

Je crois aussi qu'employeurs et employés ont droit à un salaire minimum, que ce salaire provienne, soit du travail seul, ou du travail et du commerce combines, ce serait justice tout simplement."

"Durant juin et juillet 1953 j'ai vendu mes marchandises aux prix habituels sans provoquer de commentaires de mes clients qui se sont montrés totalement indifférents à la guerre de prix.

J'opère dans un quartier ouvrier ou la clientèle est peu influencée par les annonces et achète ses produits de pharmacie au fur et à mesure de ses besoins."

J. The Sales Experience of Drug Stores Replying to Questionnaire

Replies were received to question 8, requesting information on the volume of sales for the months of January-July (inclusive), 1952 and 1953, from forty-nine drug stores that made price reductions and thirteen drug stores that did not make price reductions. In compiling the returns the actual dollar volume of sales for the various drug stores in a single category or sub-category were totalled; the sales for each month of 1952 were taken as 100 and the sales of the corresponding month of 1953 were expressed as a percentage of the 1952 base. This base of reference enables seasonal variations to be eliminated and makes possible somewhat more precise comparisons from one year to the next than would be obtained by using a monthly average as a base.

First, taking the over-all totals for those drug stores that reduced prices ("A"), and those that did not reduce prices ("B"), the sales experience in 1953 as compared with 1952 is as follows: (see Chart I)

CHART I

1953 MONTHLY SALES AS PERCENTAGES OF 1952 SALES OF STORES REDUCING AND NOT REDUCING PRICES

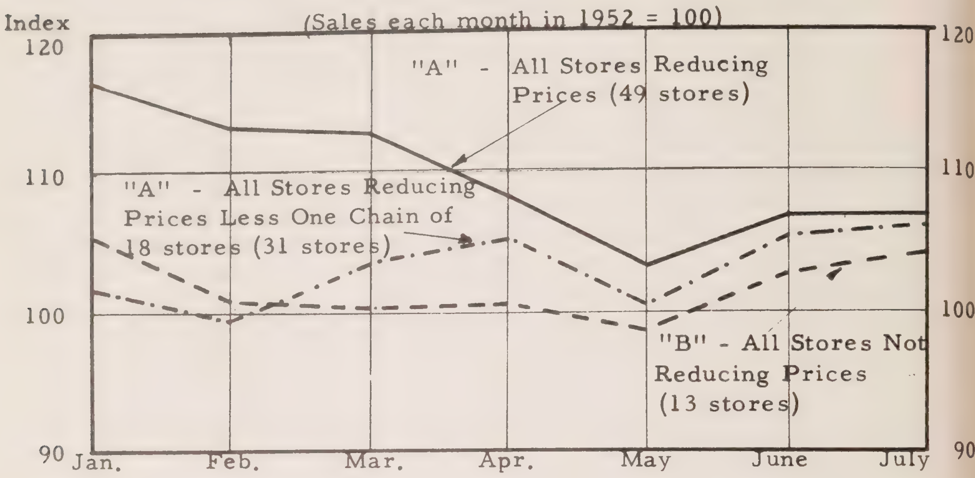
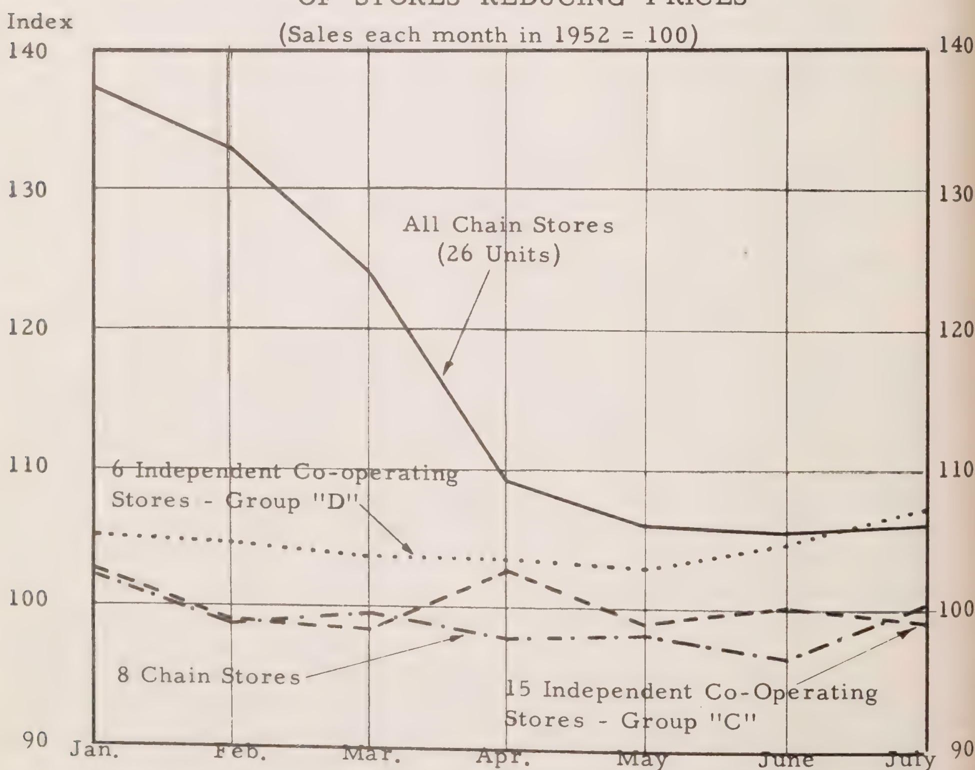


CHART 2

1953 MONTHLY SALES AS PERCENTAGES OF 1952 SALES OF STORES REDUCING PRICES



Source: Drug Store Sales Survey, Montreal, September, 1953.

	Jan.	Feb.	Mar.	Apr.	May	June	July
"A" (49 stores)	116.4	113.3	112.8	108.1	103.4	106.8	106.8
"B" (13 stores)	105.5	100.9	100.3	100.7	98.8	102.8	104.1

The data for the "A" group (those that reduced prices) are heavily influenced by the sales record of one chain store group, and this is particularly the case for the early months of 1953. It is interesting to note that this chain store reported that price reductions began in March, 1953. If the sales of this chain are eliminated from the group "A" totals, the sales record of the remaining stores that reduced prices is as follows:

	Jan.	Feb.	Mar.	Apr.	May	June	July
"A" (31 stores)	101.7	99.5	103.6	105.2	100.5	105.5	106.1

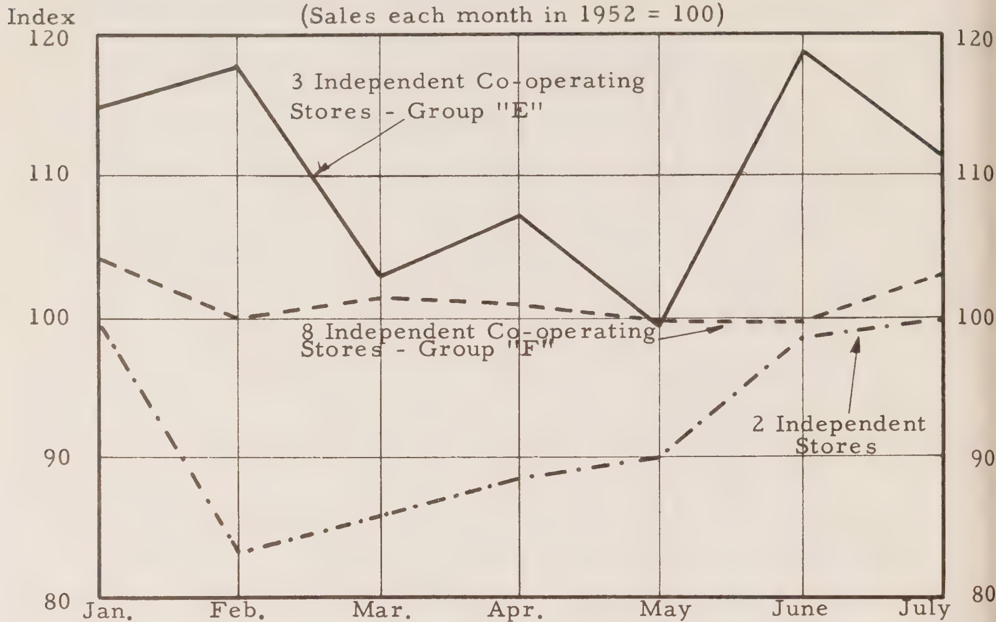
For the first four months of the seven-month period the drug stores in group "A" (whether including 49 or 31 stores) showed substantial to slight increases in their 1953 sales over sales in corresponding months in 1952, while the drug stores in group "B", apart from January, showed little change in 1953 as compared with 1952. During the months when price reductions were apparently at their peak, sales in May for the drug stores that reduced prices showed a smaller percentage increase than in April or June, and sales for the drug stores that did not reduce prices were slightly below sales in May, 1952. Sales in June and July, 1953, for both group "A" and group "B" drug stores were above the levels in June and July, 1952, the increase for group "A" drug stores being slightly greater than for group "B" stores.

Some of the more interesting aspects of the sales record of the reporting drug stores are, however, contained in the breakdown of the over-all figures into their component sections. The drug stores that reduced prices, forty-nine in number, were made up of twenty-six chain units, twenty-two members of advertising and/or buying groups, and one "independent". The twenty-two members of advertising and/or buying groups can, in turn, be broken down into three groups: fifteen drug stores in one group that advertised extensively in newspapers and offered substantial price reductions ("C"); six drug stores in another group that, while advertising extensively in newspapers, placed less emphasis on reduced prices ("D"); and one drug store that belonged to a group that did little newspaper advertising. The data for this last drug store and for the single "independent" are omitted from the following computations for obvious reasons. (see Chart 2)

CHART 3

1953 MONTHLY SALES AS PERCENTAGES OF 1952 SALES OF THE VARIOUS GROUPS OF STORES NOT REDUCING PRICES

(Sales each month in 1952 = 100)



Source: Drug Store Sales Survey, Montreal, September, 1953.

	Jan.	Feb.	Mar.	Apr.	May	June	July
Chain Stores (26 units)	137.3	133.0	124.0	109.3	106.0	105.5	106.0
Chain Stores (8 units)	102.1	98.7	99.6	97.7	98.1	96.4	100.3
Group "C" (15 stores)	102.5	99.1	98.4	102.5	99.0	100.2	99.2
Group "D" (6 stores)	105.2	104.6	103.7	103.4	102.8	104.6	107.2

The above data suggest that the chain stores (26 units) experienced a very large increase in their sales in the early months of 1953 over the corresponding months of 1952 but that the rate of increase fell off in the later months of the period under consideration as price reductions came into widespread use. If one chain with eighteen units is dropped from the computation, the remaining chain drug stores (8 in number) experienced a slight decline in 1953 for five of the seven months under review compared with sales for the corresponding months in 1952. Turning to the co-operative advertising and/or buying groups, it appears that the group offering and advertising the more marked price reductions ("C") were less successful in their sales program than the group offering and advertising the less marked price reductions ("D").

The drug stores that did not make price reductions, thirteen in all, consisted of eleven drug stores in co-operative advertising and/ or buying groups and two "independents". The members of the co-operative groups can be sub-divided into those belonging to the same parent group as Group "C" above, but which did not reduce prices (3 drug stores) ("E"), and those belonging to the same parent group as group "D" above but which, again, did not reduce prices (8 drug stores) ("F"). (see Chart 3)

	Jan.	Feb.	Mar.	Apr.	May	June	July
Group "E" (3 stores)	115.0	117.8	103.1	107.2	99.5	118.5	111.6
Group "F" (8 stores)	104.2	100.0	101.6	101.1	99.8	99.8	103.1
"Independents" (2 stores)	99.5	83.5	85.8	88.3	90.0	98.5	99.7

The data for the two "independent" drug stores suggest that they fared more poorly in 1953 sales as compared with 1952 sales than any other group, although the experience of such a small number of units is a very limited base for generalization. Even in this case, however, it is worth noting that during the months when price reductions were in most common use (May to July, inclusive) these drug stores came closer to equalling their 1952 sales than in any of the remaining months of the period under review, with the exception of January. The sales record for the co-operative groups reveals quite divergent behaviour: the members of group "E" (although only three in number)

displayed significant increases in sales in 1953, whilst the members of group "F" did little better than to maintain their 1952 volume. This reverses the experience of the members of these two groups that made price reductions.

Obviously, it was not possible, in this survey, to isolate the different factors which, in addition to price reductions, may have influenced the sales records of the different drug stores. In so far, however, as any inferences may be drawn from the Montreal experience, it would appear that they are those indicated in the foregoing paragraphs. Inconclusive as the evidence is in some respects, it does suggest one conclusion: those drug stores that offered and advertised price reductions did not experience any substantial increases in sales at the expense of the drug stores that did not reduce prices. Factors other than price reductions clearly played an important role in determining the sales record of the various competing groups.

K. Items Sold at the Largest Percentage Reduction From the Ordinary Shelf Price but Above the Net Purchase Cost

Question 6(c) asked for the five items sold at the largest percentage reduction below the supplier's suggested price or the ordinary shelf price but above the net purchase cost. The ten drug-store items showing the largest percentage reduction on this basis were as follows:

Eno's Fruit Salts	45.3%
Brylcreem	43.3%
Alphamettes	40.0%
Ayerst Cod Liver Oil	40.0%
Napthalene	40.0%
Calcium "A"	40.0%
Premarin	38.8%
Kola Astier	37.9%
Dextri-Maltose	34.9%
Optrex	34.7%

(These percentage reductions are based on the reduced selling price and the ordinary shelf price or the supplier's suggested price reported by the individual drug stores and they are calculated as reductions from this latter price.)

L. Items Sold at the Largest Percentage Reduction Below the Net Purchase Cost

In question 7(c) the drug stores were asked to list the five items sold at the largest percentage reduction below net purchase cost. The ten items showing the largest percentage reduction on this basis were:

	Per Cent Reduction Below Net Purchase Cost
Ayerst Cod Liver Oil	23.7*
Odorono Spray	10.3**
Napthalene	6.3
Gillette Blades	3.1
Absorbine Junior	2.4
Eno's Fruit Salts	2.7
Kola Astier	2.0
Optrex	2.0
Alphamettes	1.8
Kotex	1.7

(These percentage reductions are calculated on the base of the net purchase cost.)

M. <u>The Ten Items Most Frequently Reduced in Price as Reported in Questions 6(c) and 7(c)</u>

It is of some interest to note which items were most frequently reported in questions 6(c) and 7(c) as being, in the former case, sold at the largest percentage reduction below the suggested or ordinary shelf price but above the net purchase cost, and, in the latter case, sold at the largest percentage reduction below net purchase cost.

In the following table are listed the ten items reported most frequently in reply to these two questions. In addition, data are provided on the range of percentage mark-ups on cost and the range of percentage reductions from the supplier's suggested price or ordinary shelf price. It should be kept in mind in reading this table that buying prices may vary from one drug store to the next, hence giving rise to changes in the base upon which percentage mark-ups on cost are calculated.

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* The data on which this percentage reduction is based are:

Net Purchase Cost:	$1.77 per unit
Selling Price:	1.35 " "
Suggested Selling Price:	2.25 " "

The more common net purchase cost reported was $1.35 per unit, and the lowest cost reported was $1.21 per unit.

** The data on which this percentage reduction is based are:

Net Purchase Cost:	$1.092 per unit ($13.10 per dozen)
Selling Price:	.98 " "
Suggested Selling Price:	1.25 " "

Product	Number of times reported	Range of Percentage mark-ups on cost	Range of Percentage reductions from "regular" price
		%	%
Alphamettes	19	Nil to 25.4	37 to 40
Eno's Fruit Salts	18	-2.7 to 19.0	16.9 to 45.3
Kotex	15	-1.7 to 21.7	12.5 to 28.8
Absorbine Jr.	14	-1.7 to 22.5	17.6 to 33.6
Kleenex	13	Nil to 25.8	9.3 to 25.0
Pablum	11	3.0 to 26.5	12.2 to 30.6
Dodd's Kidney Pills	8	Nil to 22.5	16.9 to 30.5
Ayerst Cod Liver Oil	7	-23.7 to 11.6	40.0 to 42.7
Bromo-Seltzer	7	Nil to 16.7	19.4 to 29.1
Alka-Seltzer	6	Nil to 18.6	25.0 to 29.4

N. Extent of Price Reductions on Advertised Drug Store Items

A survey was made of the drug store advertisements inserted in two leading Montreal newspapers - La Presse and Montreal Star - for the period March 1-July 15, 1953. On the basis of this survey a list was compiled of 130 items that were reduced in price. Table I assembles the list of items and the price data applicable to each. The average prices shown in column (2) were calculated on the basis of the separate prices offered by the various advertisers, not on the number of prices that appeared in the advertisements surveyed. In those few cases where a drug store advertised the same product at different prices, the latest price advertised in the period under survey was used as the price for that drug store in the calculation of the average price. In column (4) are listed the "regular" prices as shown in the advertisements. For some items different "regular" prices, in no case more than two, were advertised. The different "regular" prices are reported under column (4) but only the "regular" price reported by the largest number of advertisers (marked *) has been included in the aggregates. In column (5) are listed the suggested or maintained prices reported to the Combines Branch as being in effect in December, 1951. Such prices were available for about 75 per cent of the items concerned in this survey of advertisements.

TABLE I

Drug Products Advertised in Two Montreal Newspapers, March 1-July 15, 1953 at Cut Prices, by Average Cut Prices, "Regular Prices" and December, 1951, Maintained or Suggested Prices

	Product (1)	Average Cut Prices (2)		Individual Cut Prices (3)						Regular Prices as Advertised (4)		December, 1951 Maintained or Suggested Prices (5)	
1.	Absorbine Jr., small	(5)	2.258	(4)	2.10	(1)	2.89				3.50		3.50
2.	Absorbine Jr., large	(3)	1.803	(2)	1.66	(1)	2.09				2.39		2.39
3.	Aimant, Coty, Perfume	(1)	2.30								2.50		
4.	Alka Seltzer	(4)	.268	(3)	.26	(1)	.29				.35		.34
5.	Alka Seltzer	(4)	.53	(3)	.51	(1)	.59				.70		.68
6.	Alphamettes 25's	(5)	.648	(4)	.60	(1)	.84				1.00		1.00
7.	Alphamettes 50's	(5)	1.206	(4)	1.11	(1)	1.59				1.85		1.85
8.	Alphamettes 100's	(5)	2.258	(4)	2.10	(1)	2.89				3.50		3.50
9.	Amphojel (liquid)	(1)	1.23								1.35		1.35
10.	Anacin Tablets	(1)	1.085								1.19		1.19
11.	Andrew's Salt	(1)	.99								1.24		
12.	Arrid Cream, large	(1)	.675								.75		.75
13.	Baby's Own, 8 oz.	(1)	.625								.69		
14.	Band-Aid	(1)	.315								.35		.35
15.	Bayer Aspirin	(1)	.715								.79		.79
16.	Bengay	(1)	.625								.69		.75
17.	Blue Jay Corn Pad	(1)	.315								.35		
18.	Bromo Seltzer	(4)	.425	(3)	.42	(1)	.44				.55		.55
19.	Bromo Seltzer	(5)	.762	(1)	.69	(3)	.75	(1)	.87		.98		.98

Table I, Continued

(1)		(2)		(3)						(4)		(5)	
20.	Bromo Seltzer	(4)	1.54	(2)	1.50	(2)	1.58				1.85		1.89
21.	Brylcreem	(2)	.32	(1)	.30	(1)	.34				.45		.43
22.	Brylcreem	(2)	.53	(1)	.47	(1)	.59				.70		.69
23.	Calcium "A" 280	(3)	1.68	(2)	1.53	(1)	1.98			2.25	2.55*		2.55
24.	Caroid Bile Salts Tablets	(1)	1.14								1.25		1.25
25.	Carter's Liver Pills	(5)	.242	(2)	.23	(2)	.24	(1)	.27		.34		.34
26.	Carter's Liver Pills	(5)	.484	(4)	.47	(1)	.54				.69		.69
27.	Carter's Liver Pills	(5)	.702	(2)	.67	(2)	.69	(1)	.79		.98		.98
28.	Chanel No. 5 Toilet Water	(1)	3.22								3.50		
29.	Chanel No. 5, Perfume	(1)	5.51								6.00		
30.	Cod Liver Oil, Ayerst	(4)	1.485	(4)	1.35	(1)	1.89				2.25		2.25
31.	Colgate Tooth Paste	(2)	.245	(2)	.245						.33		.33
32.	Colgate Tooth Paste	(1)	.805								.89		.95 (Family)
33.	Coty Stick Cologne	(1)	1.365								1.50		
34.	Cutex Remover	(1)	.39								.43		.45
35.	Cuticura Soap	(1)	.27								.33	3/	.85
36.	Cystex	(3)	.73	(2)	.70	(1)	.79				1.00		1.00
37.	Cystex	(3)	1.457	(2)	1.40	(1)	1.57				2.00		2.00
38.	Deschien's Hemoglobine	(4)	2.023	(1)	1.74	(2)	1.98	(1)	2.39		2.90		2.75
39.	Dextri-Maltose	(5)	.628	(1)	.62	(4)	.63				.85		.80
40.	Dichloricide (Merck)	(3)	.523	(2)	.50	(1)	.57			.69*	.75		.75
41.	Dodd's Pills	(3)	.452	(1)	.445	(1)	.45	(1)	.46	.49	.59*		.50
42.	Drene	(1)	.905								.99		1.09
43.	Dr. West's Tooth Brush	(4)	.423	(3)	.40	(1)	.49				.60		.60
44.	Eno's Fruit Salts	(5)	.802	(2)	.74	(1)	.75	(2)	.89		1.09		.98

Table I, Continued

	(1)	(2)		(3)						(4)		(5)	
45.	Eskay's Neurophosphates	(2)	1.07	(1)	1.00	(1)	1.14				1.50		1.50
46.	Evening in Paris Per - fume	(1)	.91								1.00		
47.	Evening in Paris Toilet Water	(1)	1.14								1.25		
48.	Face Elle	(1)	.23								.28		
49.	Face-Elle	(1)	.17								.22	2/	.43
50.	Face-Elle Pastels	(1)	.23								.25		.275
51.	Fellow's Syrup	(1)	.98								1.49		1.49
52.	Femol	(1)	.995								1.09		
53.	Forhan's Tooth Paste	(1)	.535								.59		
54.	Freezone	(1)	.315								.35		.35
55.	Gillette Blades	(3)	.21	(3)	.21						.25		.25
56.	Gillette Blades	(3)	.39	(3)	.39						.50		.50
57.	Gillette Blades	(3)	.73	(3)	.73						1.00		1.00
58.	Gin Pills	(3)	.457	(1)	.44	(1)	.45	(1)	.48		.60		
59.	Hazel Bishop Lipstick	(1)	1.365								1.50		
60.	Hemostyl Ampoules	(1)	1.59								2.40		
61.	Hemostyl Syrup	(2)	1.885	(1)	1.84	(1)	1.93				2.75		
62.	Hudnut Children's Home Perm.	(2)	.97	(2)	.97						1.95		2.25
63.	IRDA Hosp. Cotton, 1lb. roll	(1)	.79								1.09		
64.	Kleenex, Man's Size	(2)	.3325	(1)	.315	(1)	.35				.35	2/	.71
65.	Kleenex, Regular	(4)	.1625	(2)	.155	(2)	.17			.20*	.22	2/	.43
66.	Kola Astier	(4)	.96	(3)	.98	(1)	.90				1.50		
67.	Kotex, Jr.	(4)	.316	(2)	.30	(1)	.315	(1)	.35		.40	2/	.79
68.	Kotex, Economy size	(4)	1.185	(3)	1.15	(1)	1.29				1.53		1.53
69.	Kotex Belt	(1)	.315								.35		

Table I, Continued

	(1)	(2)		(3)						(4)		(5)	
70.	Kruschen Salts	(2)	.57	(1)	.56	(1)	.58				.75		.69
71.	Larvex, 16 oz.	(1)	.85								.93		.93
72.	Listerine	(1)	.69								.98		1.10
73.	Lorate	(1)	1.14								1.25		
74.	Lux Soap	(1)	.09								.11		
75.	Lydia Pinkham Compound	(1)	1.19								1.50		
76.	Lysol, Small	(2)	.33	(2)	.33						.43		.43
77.	Lysol, Medium	(2)	.67	(2)	.67						.73		.79
78.	Lysol, large	(2)	1.29	(2)	1.29						1.45		1.50
79.	Magnolax, Large	(1)	1.14								1.25		1.25
80.	Max Factor Lipstick	(1)	.81								.90		
81.	Modess	(4)	.325	(2)	.30	(2)	.35				.40	2/	.79
82.	Modess	(4)	1.22	(2)	1.15	(2)	1.29				1.53		1.53
83.	Mum, Large	(1)	.675								.75		.75
84.	Napthalene	(2)	.125	(2)	.125						.18		
85.	Nil-O-Nal	(1)	1.79								2.50		
86.	Nil-O-Nal	(3)	.98	(3)	.98					1.75	1.79*		
87.	Nouric Baby Food	(1)	.39								.50		.50
88.	Noxzema 3-way Shave Cream	(1)	.25								.40		.45
89.	Noxzema Skin Cream	(2)	.29	(2)	.29						.40		
90.	Odorono Cream Deodorant	(2)	.69	(2)	.69						1.00		
91.	Odorono Spray	(1)	.98								1.25		1.25
92.	Olympene	(1)	1.14								1.25		1.25
93.	Optrex	(3)	.98	(3)	.98						1.50		1.50
94.	Ozonol Ointment	(1)	.39								.55		.55
95.	Pablum	(4)	.35	(1)	.33	(2)	.34	(1)	.39	.48*	.50		.48

Table I, Continued

(1)		(2)		(3)						(4)		(5)	
											.65		.65
96.	Palmolive Shave Cream	(1)	.585								.25		.25
97.	Personna Blades 5's	(1)	.13								.49		.46
98.	Phillips Magnesia	(1)	.39										
	Tablets										.71		.71
99.	Phillips Milk of	(1)	.64										
	Magnesia 26 oz.										1.95		1.95
100.	Piperazine Midy	(1)	1.39								.15		
101.	Poudrettes	(1)	.135								10.45		10.45
102.	Premarin	(4)	6.948	(3)	6.27	(1)	8.98				.59		.59
103.	Prophylactic Tooth	(1)	.535										
	Brush										.25		
104.	Pyrex, 8 oz. (Feeding	(1)	.225										
	Bottle)										.85		.85
105.	Revlon Lipstick	(1)	.765								1.65		
106.	Revlon Lipstick	(1)	1.10								.65		.65
107.	Revlon Nail Polish	(1)	.585								1.65		
108.	Revlon Nail Polish	(1)	1.10								1.25		
109.	Revlon Velvety Re-	(1)	.49										
	mover, 5 oz.										8.00		
110.	Rexall Plenamins	(1)	6.00								1.39		1.45
111.	Sal Hepatica	(1)	.98								.58		.58
112.	Sapho DDT 5% 16 oz.	(1)	.525								1.39		
113.	Sapho Insect Bomb 11 oz.	(1)	1.265								.75		.73
114.	Schick Blades	(1)	.675								.89		.90
115.	Sloan's Liniment	(1)	.805								1.25		1.25
116.	Stopette, Large	(1)	1.14								.98		
117.	Syrup Cocillana	(1)	.69								1.49		1.49
118.	Tampax	(1)	1.36										

Table I, Continued

(1)		(2)		(3)						(4)		(5)	
119.	Tangee	(1)	.675								.75		.75
120.	Templeton's T.R.C. 36's	(2)	1.185	(1)	1.14	(1)	1.23				1.35		1.35
121.	Toni Refill	(1)	1.595								1.75		
122.	Urasal	(1)	.69								1.00		1.00
123.	Vick's Vaporub	(1)	.48								.53		.53
124.	Vitalis	(1)	1.175								1.29		1.30
125.	White Pine Cough Syrup	(1)	.49								1.25		
126.	White Swan Toilet Tissue	(1)	.115								.15	2/	.29
127.	Wildroot Cream Oil	(4)	.533	(3)	.50	(1)	.63				.75		.73
128.	Wildroot Cream Oil	(4)	.903	(3)	.84	(1)	1.09				1.25		1.23
129.	Wildroot Cream Oil	(1)	.295								.43		.43
130.	Woodbury Shampoo	(2)	.59	(2)	.59						1.20		

Sources: La Presse, March 1-July 15 (May 1-7 inclusive not included due to non-availability at time of survey.)
Montreal Star, March 1-July 15
1951 Drug Price Book

The following summary brings together the comparative figures on the aggregates of regular selling prices and of the reduced prices offered in the advertisements surveyed. Table II refers to all the items (130)

TABLE II

	"Regular" Selling Prices	Average Selling Prices	Lowest Selling Prices
Aggregate:	$158.58	$121.63	$118.79
Based on:	(130 items)	(130 items)	(130 items)
	100%	76.7%	74.9%

covered in the survey and reports the aggregate of the "regular" selling prices for these items, the aggregate based on the average reduced selling price for each item (which includes single prices for a number of articles where these were offered by only one advertiser) and the aggregate based on the lowest selling price reported for each item (which in some cases is based on a single price where an article was offered by only one advertiser). The percentage that each aggregate bears to the aggregate of the "regular" selling prices is also shown.

In Table III data are provided on the aggregate selling prices of the items that were cut in price on a competitive basis, that is, items that

TABLE III

	"Regular" Selling Prices	Average Selling Prices	Lowest Selling Prices
Aggregate:	$72.85	$51.07	$48.20
Based on:	(55 items)	(55 items)	(55 items)
	100%	70.1%	66.2%

were offered at a reduced price by more than one advertiser. The percentages applying to the different aggregates are also inserted.

Table IV presents aggregates and percentages in which the December, 1951, prices are used as the basis for comparison. The 91 items included are

TABLE IV

	December, 1951 Selling Prices	Average Selling Prices	Lowest Selling Prices
Aggregate: Based on:	$99.62 (91 items) 100%	$75.39 (91 items) 75.7%	$72.63 (91 items) 72.9%

all the items for which December, 1951, prices were available in the Combines Branch.

Table V refers to the items for which December, 1951, prices were available and which were reduced in price on a competitive basis.

TABLE V

	December, 1951 Selling Prices	Average Selling Prices	Lowest Selling Prices
Aggregate: Based on:	$63.39 (47 items) 100%	$45.09 (47 items) 71.1%	$42.34 (47 items) 66.8%

O. The Sequence in Which Price Reductions were Made by Leading Advertisers

In order to establish which drug store(s) initiated the advertised reduction in price for the drug products covered in the survey of advertisements in Montreal newspapers, and to establish which firm made the most marked advertised price reduction, a compilation was made of the prices offered by each advertiser on those items that were competitively reduced in the chronological order in which the price reductions were made. The advertisements on which this summary was based covered the period March 1, 1953, to July 15, 1953. This was the period which, according to the questionnaires received from drug stores in Montreal, covered the initiation and the most active phase of the price reductions. For the fifty-five articles included in this compilation, Montreal Pharmacy initiated the advertised price reduction in forty-two cases, Leduc Drug Stores initiated the advertised price reduction in ten cases, American Drug Stores in two cases and the Independent Retail Druggists Association Drug Stores in one case.

When attention is turned to the drug store which first advertised the lowest price for the fifty-five articles included in this summary, the order in which the four major advertisers stand is almost completely the reverse of the order in which they stood as

initiators of price reductions. The most marked reduction reported was first advertised in thirty cases by I. R. D. A. Drug Stores, in fifteen cases by the Leduc Drug Stores, in six cases by the Montreal Pharmacy and in four cases by the American Drug Stores. It will be clear from this survey of competitively priced items that the Montreal Pharmacy was apparently the leader in initiating price reductions but that the most extensive price reductions were initiated by the I. R. D. A. Drug Stores.

In the following compilation the headings are in general self-explanatory: the column headed "1951 Price" refers to the price reported to the Combines Branch as being in effect on December 28, 1951; the column headed "Date" refers to the date on which the advertisement offering the item in question at the reduced price appeared; under the heading "Advertiser" abbreviations have been employed for the names of the advertisers, which are as follows - "MP", Montreal Pharmacy; "IRDA", Independent Retail Druggists Association Drug Stores; "Leduc", Leduc Drug Stores; "SCP", Sarrazin & Choquette Pharmaciens; and "ADS", American Drug Stores. Under the heading "Paper", the abbreviation "LP" stands for La Presse, and the abbreviation "MS" stands for Montreal Star.

Product	Advt. "Reg." Price	Cut Price	1951 Price	Date	Advertiser	Paper
Alphamettes 25's	100	84	100	30/4	MP	MS
	100	60		8/5	IRDA	MS
	100	60		11/5	Leduc	LP
	100	60		15/5	IRDA	MS
	100	60		19/5	IRDA	LP
	100	60		22/5	IRDA	MS
	100	60		26/5	Leduc	MS
	100	60		28/5	SCP	LP
	100	60		29/5	IRDA	MS
	100	60		30/5	IRDA	LP
	100	60		3/6	ADS	MS
	100	60		15/6	IRDA	LP
	100	60		27/6	IRDA	LP
	100	84		27/6	MP	LP
	100	60		3/7	IRDA	MS
	100	60		4/7	IRDA	LP
	100	60		10/7	IRDA	MS
Alphamettes 50's	185	159	185	30/4	MP	MS
	185	111		8/5	IRDA	MS
	185	111		11/5	Leduc	LP
	185	111		15/5	IRDA	MS
	185	111		19/5	IRDA	LP
	185	111		22/5	IRDA	MS
	185	111		26/5	Leduc	MS
	185	111		28/5	SCP	LP
	185	111		29/5	IRDA	MS
	185	111		30/5	IRDA	LP

	185	111		3/6	ADS	MS
	185	111		15/6	IRDA	LP
	185	111		27/6	IRDA	LP
	185	159		27/6	MP	LP
	185	111		3/7	IRDA	MS
	185	111		4/7	IRDA	LP
	185	111		10/7	IRDA	MS
Alphamettes 100's	350	289	350	30/4	MP	MS
	350	210		8/5	IRDA	MS
	350	210		11/5	Leduc	LP
	350	210		15/5	IRDA	MS
	350	210		19/5	IRDA	LP
	350	210		22/5	IRDA	MS
	350	210		26/5	Leduc	MS
	350	210		28/5	SCP	LP
	350	210		29/5	IRDA	MS
	350	210		30/5	IRDA	LP
	350	210		3/6	ADS	MS
	350	210		15/6	IRDA	LP
	350	210		27/6	IRDA	LP
	350	289		27/6	MP	LP
	350	210		3/7	IRDA	MS
	350	210		4/7	IRDA	LP
	350	210		10/7	IRDA	MS
Absorbine Jr. Sm.	119	98	119	14/5	MP	MS
	119	83		15/5	IRDA	MS
	119	83		19/5	IRDA	LP
	119	83		22/5	IRDA	MS
	119	83		28/5	SCP	LP
	119	83		29/5	IRDA	MS
	119	83		30/5	IRDA	LP
	119	79		3/6	ADS	MS
	119	83		5/6	IRDA	MS
	119	83		15/6	IRDA	LP
	119	83		18/6	SCP	LP
	119	98		27/6	MP	LP
	119	83		27/6	IRDA	LP
	119	83		3/7	IRDA	MS
	119	83		10/7	IRDA	MS
	119	83		4/7	IRDA	LP
	119	98		13/7	MP	MS
	119	98		13/7	MP	LP
Absorbine Jr. Lge.	239	209	239	14/5	MP	MS
	239	166		15/5	IRDA	MS
	239	166		19/5	IRDA	LP
	239	166		22/5	IRDA	MS
	239	166		28/5	SCP	LP
	239	166		29/5	IRDA	MS
	239	166		30/5	IRDA	LP
	239	166		5/6	IRDA	MS
	239	166		15/6	IRDA	LP
	239	166		18/6	SCP	LP

	239	166		27/6	IRDA	LP
	239	209		27/6	MP	LP
	239	166		3/7	IRDA	MS
	239	166		4/7	IRDA	LP
	239	166		10/7	IRDA	MS
	239	209		13/7	MP	MS
	239	209		13/7	MP	LP
Alka Seltzer	35	29	34	28/5	MP	MS
	35	26		30/5	IRDA	LP
	35	26		3/6	Leduc	LP
	35	26		5/6	IRDA	MS
	35	26		8/6	Leduc	LP
	35	26		15/6	Leduc	LP
	35	26		18/6	SCP	LP
	35	26		27/6	IRDA	LP
	35	29		27/6	MP	LP
	35	26		3/7	IRDA	LP
	35	26		4/7	IRDA	MS
	35	26		10/7	IRDA	MS
Alka Seltzer	70	59	68	28/5	MP	MS
	70	51		30/5	IRDA	LP
	70	51		3/6	Leduc	LP
	70	51		5/6	IRDA	MS
	70	51		8/6	Leduc	LP
	70	51		15/6	Leduc	LP
	70	51		18/6	SCP	LP
	70	59		27/6	MP	LP
	70	51		27/6	IRDA	LP
	70	51		3/7	IRDA	MS
	70	51		4/7	IRDA	LP
	70	51		10/7	IRDA	MS
Bromo-Seltzer	55	44	55	28/5	MP	MS
	55	42		30/5	IRDA	LP
	55	42		3/6	Leduc	LP
	55	42		5/6	IRDA	MS
	55	42		8/6	Leduc	LP
	55	42		18/6	SCP	LP
	55	44		27/6	MP	LP
	55	42		27/6	IRDA	LP
	55	42		3/7	IRDA	MS
	55	42		4/7	IRDA	LP
	55	42		10/7	IRDA	MS
	55	44		13/7	MP	MS
	55	44		13/7	MP	LP
Bromo-Seltzer	98	87	98	28/5	MP	MS
	98	75		30/5	IRDA	LP
	98	75		3/6	Leduc	LP
	98	69		3/6	ADS	MS
	98	75		5/6	IRDA	MS
	98	75		8/6	Leduc	LP
	98	75		18/6	SCP	LP
	98	87		27/6	MP	LP

	98	75		27/6	IRDA	LP
	98	75		3/7	IRDA	MS
	98	75		4/7	IRDA	LP
	98	75		10/7	IRDA	MS
	98	87		13/7	MP	MS
	98	87		13/7	MP	LP
Bromo-Seltzer	185	158	189	28/5	MP	MS
	185	150		30/5	IRDA	LP
	185	150		3/6	Leduc	LP
	185	150		5/6	IRDA	MS
	185	150		8/6	Leduc	LP
	185	158		18/6	SCP	LP
	185	158		27/6	MP	LP
	185	150		27/6	IRDA	LP
	185	150		3/7	IRDA	MS
	185	150		4/7	IRDA	LP
	185	150		10/7	IRDA	MS
	185	158		13/7	MP	MS
	185	158		13/7	MP	LP
Brylcreem	45	34	43	13/6	MP	LP
	45	34		13/6	MP	MS
	45	34		27/6	MP	LP
	45	30		27/6	IRDA	LP
	45	30		3/7	IRDA	MS
	45	30		4/7	IRDA	LP
	45	30		10/7	IRDA	MS
Brylcreem	70	59	69	13/6	MP	LP
	70	59		13/6	MP	MS
	70	59		27/6	MP	LP
	70	47		27/6	IRDA	LP
	70	47		3/7	IRDA	MS
	70	47		4/7	IRDA	LP
	70	47		10/7	IRDA	MS
Carter's L. Pills	34	27	34	14/5	MP	MS
	34	24		15/5	IRDA	MS
	34	23		19/5	Leduc	LP
	34	24		19/5	IRDA	LP
	34	24		22/5	IRDA	MS
	34	24		26/5	Leduc	MS
	34	23		28/5	SCP	LP
	34	24		29/5	IRDA	MS
	34	24		30/5	IRDA	LP
		23		3/6	ADS	MS
	34	24		5/6	IRDA	MS
	34	24		15/6	IRDA	LP
	34	23		18/6	SCP	LP
	34	27		27/6	MP	LP
	34	24		27/6	IRDA	LP
	34	27		13/7	MP	MS
	34	27		13/7	MP	LP
Carter's L. Pills	69	54	69	14/5	MP	MS
	69	47		15/5	IRDA	MS

	69	47		19/5	Leduc	LP
	69	47		19/5	IRDA	LP
	69	47		22/5	IRDA	MS
	69	47		26/5	Leduc	MS
	69	47		28/5	SCP	LP
	69	47		29/5	IRDA	MS
	69	47		30/5	IRDA	LP
	69	47		3/6	ADS	MS
	69	47		5/6	IRDA	MS
	69	47		15/6	IRDA	LP
	69	47		18/6	SCP	LP
	69	54		27/6	MP	LP
	69	47		27/6	IRDA	LP
	69	54		13/7	MP	MS
	69	54		13/7	MP	LP
Carter's L. Pills	98	79	98	14/5	MP	MS
	98	69		15/5	IRDA	MS
	98	67		19/5	Leduc	LP
	98	69		19/5	IRDA	LP
	98	69		22/5	IRDA	MS
	98	69		26/5	Leduc	MS
	98	67		28/5	SCP	LP
	98	69		29/5	IRDA	MS
	98	69		30/5	IRDA	LP
	98	67		3/6	ADS	MS
	98	69		5/6	IRDA	MS
	98	69		15/6	IRDA	LP
	98	67		18/6	SCP	LP
	98	79		27/6	MP	LP
	98	69		27/6	IRDA	LP
	98	79		13/7	MP	MS
	98	79		13/7	MP	LP
Calcium "A" 280, 100	225	198	255	14/5	MP	MS
	255	153		15/5	IRDA	MS
	255	153		19/5	IRDA	LP
	255	153		22/5	IRDA	MS
	255	153		28/5	SCP	LP
	255	153		29/5	IRDA	MS
	255	153		30/5	IRDA	LP
	255	153		5/6	IRDA	MS
	255	153		15/6	IRDA	LP
	255	153		27/6	IRDA	LP
	225	198		27/6	MP	LP
	255	153		3/7	IRDA	MS
	255	153		4/7	IRDA	LP
	255	153		10/7	IRDA	MS
Cod Liver Oil 10. D (Ayerst) 1 lb.	225	189	225	30/4	MP	MS
	225	135		8/5	IRDA	MS
	225	135		15/5	IRDA	MS

	225	135		19/5	IRDA	LP
	225	135		22/5	IRDA	MS
	225	135		28/5	SCP	LP
	225	135		29/5	IRDA	MS
	225	135		30/5	IRDA	LP
	225	135		3/6	ADS	MS
	225	135		15/6	IRDA	LP
	225	135		27/6	IRDA	LP
	225	189		27/6	MP	LP
	225	135		3/7	IRDA	MS
	225	135		4/7	IRDA	LP
	225	135		10/7	IRDA	MS
Cystex	100	79	100	28/5	MP	MS
	100	70		30/5	IRDA	LP
	100	70		3/6	Leduc	LP
	100	70		5/6	IRDA	MS
	100	70		8/6	Leduc	LP
	100	79		27/6	MP	LP
	100	70		27/6	IRDA	LP
	100	70		3/7	IRDA	MS
	100	70		4/7	IRDA	LP
	100	70		10/7	IRDA	MS
Cystex	200	157	200	28/5	MP	MS
	200	140		30/5	IRDA	LP
	200	140		3/6	Leduc	LP
	200	140		5/6	IRDA	MS
	200	140		8/6	Leduc	LP
	200	157		27/6	MP	LP
	200	140		27/6	IRDA	LP
	200	140		3/7	IRDA	MS
	200	140		4/7	IRDA	LP
	200	140		10/7	IRDA	MS
Colgate Tooth Paste	33	2/49	33	3/6	ADS	MS
	33	2/49		13/7	Leduc	LP
Dichloricide (Merck)	75	57	75	14/5	MP	MS
	69	50		15/5	IRDA	MS
	69	50		19/5	IRDA	LP
	69	50		22/5	IRDA	MS
	69	50		28/5	SCP	LP
	69	50		29/5	IRDA	MS
	69	50		30/5	IRDA	LP
	69	50		5/6	IRDA	MS
	69	50		15/6	IRDA	LP
	75	57		27/6	MP	LP
	69	50		27/6	IRDA	LP
	69	50		3/7	IRDA	MS
	69	50		4/7	IRDA	LP
	69	50		10/7	IRDA	MS
Dextri-Maltose	85	63	80	11/5	Leduc	LP
	85	63		14/5	MP	MS
	85	63		15/5	IRDA	MS

	85	62		19/5	Leduc	LP
	85	63		19/5	IRDA	LP
	85	63		26/5	Leduc	MS
	85	62		28/5	SCP	LP
	85	63		29/5	IRDA	MS
	85	63		30/5	IRDA	LP
	85	63		3/6	ADS	MS
	85	63		15/6	IRDA	LP
	85	62		18/6	SCP	LP
	85	63		27/6	IRDA	LP
	85	63		27/6	MP	LP
	85	63		3/7	IRDA	MS
	85	63		4/7	IRDA	LP
	85	63		10/7	IRDA	MS
	85	63		13/7	MP	MS
	85	63		13/7	MP	LP
Dr. West's Tooth Br.	60	49	60	28/5	MP	MS
	60	40		30/5	IRDA	LP
	60	40		3/6	Leduc	LP
	60	40		5/6	IRDA	MS
	60	40		8/6	Leduc	LP
	60	40		18/6	SCP	LP
	60	49		27/6	MP	LP
	60	40		27/6	IRDA	LP
	60	40		3/7	IRDA	MS
	60	40		4/7	IRDA	LP
	60	40		10/7	IRDA	MS
	60	49		13/7	MP	MS
	60	49		13/7	MP	LP
Dodd's Pills	59	46	50	13/6	MP	MS
	49	2/89		22/6	Leduc	LP
	59	46		27/6	MP	LP
	59	45		27/6	IRDA	LP
	59	45		3/7	IRDA	MS
	59	45		4/7	IRDA	LP
	59	45		10/7	IRDA	MS
	59	46		13/7	MP	MS
	59	46		13/7	MP	LP
Eno's Fruit Salts	109	89	98	14/5	MP	MS
	109	75		15/5	IRDA	MS
	109	74		19/5	Leduc	LP
	109	75		19/5	IRDA	LP
	109	75		22/5	IRDA	MS
	109	75		26/5	Leduc	MS
	109	74		28/5	SCP	LP
	109	75		29/5	IRDA	MS
	109	75		30/5	IRDA	LP
	109	74		3/6	ADS	MS
	109	75		3/6	Leduc	LP
	109	75		5/6	IRDA	MS

	109	75		8/6	Leduc	LP
	109	75		15/6	IRDA	LP
	109	74		18/6	SCP	LP
	109	89		27/6	MP	LP
	109	75		27/6	IRDA	LP
	109	75		3/7	IRDA	MS
	109	75		4/7	IRDA	LP
	109	75		10/7	IRDA	MS
	109	89		13/7	MP	MS
	109	89		13/7	MP	LP
	109	89		13/7	Leduc	LP
Deschiens Hemo-globine	290	239	275	14/5	MP	MS
	290	198		28/5	MP	MS
	290	239		28/5	SCP	LP
	290	198		13/6	MP	MS
	290	198		13/6	MP	LP
		198		15/6	Leduc	LP
	290	198		27/6	MP	LP
	290	174		3/7	IRDA	MS
	290	174		4/7	IRDA	LP
	290	174		10/7	IRDA	MS
	290	198		13/7	MP	MS
	290	198		13/7	MP	LP
Eskay's Neuro-phosphates	150	114	150	13/6	MP	MS
	150	114		13/6	MP	LP
	150	100		27/6	IRDA	LP
	150	114		27/6	MP	LP
	150	100		3/7	IRDA	MS
	150	100		4/7	IRDA	LP
	150	100		10/7	IRDA	MS
Gillette Blades	25	21	25	2/3	Leduc	LP
	25	21		30/4	MP	MS
	25	21		28/5	MP	MS
	25	21		3/6	Leduc	LP
	25	21		8/6	Leduc	LP
	25	21		13/6	MP	LP
	25	21		13/6	MP	MS
	25	21		18/6	SCP	LP
	25	21		27/6	MP	LP
	25	21		13/7	MP	MS
	25	21		13/7	MP	LP
Gillette Blades	50	39	50	2/3	Leduc	LP
	50	35		30/4	MP	MS
	50	39		28/5	MP	MS
	50	39		3/6	Leduc	LP
	50	39		8/6	Leduc	LP
	50	39		13/6	MP	MS
	50	39		13/6	MP	LP
	50	39		18/6	SCP	LP

	50	39		27/6	MP	LP
	50	39		13/7	MP	MS
	50	39		13/7	MP	LP
Gillette Blades	100	73	100	2/3	Leduc	LP
	100	69		30/4	MP	MS
	100	73		28/5	MP	MS
	100	73		3/6	Leduc	LP
	100	73		8/6	Leduc	LP
	100	73		13/6	MP	MS
	100	73		13/6	MP	LP
	100	73		18/6	SCP	LP
	100	73		27/6	MP	LP
	100	73		13/7	MP	MS
	100	73		13/7	MP	LP
Gin Pills	60	49		28/5	MP	MS
	60	44		30/5	IRDA	LP
	60	44		3/6	Leduc	LP
	60	44		5/6	IRDA	MS
	60	44		8/6	Leduc	LP
		48		15/6	Leduc	LP
	60	48		27/6	MP	LP
	60	44		27/6	IRDA	LP
	60	44		3/7	IRDA	MS
	60	44		4/7	IRDA	LP
	60	44		10/7	IRDA	MS
Hemostyl Syrup	275	193		13/6	MP	LP
	275	193		27/6	MP	LP
	275	184		3/7	IRDA	MS
	275	184		4/7	IRDA	LP
	275	184		10/7	IRDA	MS
Kleenex Reg.		2/39	2/43	9/3	Leduc	LP
		2/39		13/3	MP	MS
		2/39		14/3	MP	LP
	22	2/39		20/4	Leduc	LP
		2/39		30/4	MP	MS
	22	17		14/5	MP	MS
	20	2/31		15/5	IRDA	MS
	20	2/31		19/5	IRDA	LP
	20	2/31		22/5	IRDA	MS
	22	17		26/5	Leduc	MS
	20	2/31		28/5	SCP	LP
	20	2/31		29/5	IRDA	MS
	20	2/31		30/5	IRDA	LP
	20	16		3/6	Leduc	LP
	20	2/31		5/6	IRDA	MS
	20	16		8/6	Leduc	LP
	20	2/31		15/6	IRDA	LP
	20	2/31		18/6	SCP	LP
	22	17		27/6	MP	LP
	20	2/31		27/6	IRDA	LP
	20	2/31		3/7	IRDA	MS

	20	2/31		4/7	IRDA	LP
	20	2/31		10/7	IRDA	MS
	22	17		13/7	MP	MS
	22	17		13/7	MP	LP
	22	17		13/7	Leduc	LP
Kotex, Junior	40	2/69	2/79	14/5	MP	MS
	40	30		15/5	IRDA	MS
	40	30		19/5	IRDA	LP
	40	30		22/5	IRDA	MS
	40	30		26/5	Leduc	MS
	40	30		28/5	SCP	LP
	40	30		29/5	IRDA	MS
	40	30		30/5	IRDA	LP
	40	30		3/6	Leduc	LP
	40	30		5/6	IRDA	MS
	40	30		8/6	Leduc	LP
	40	30		15/6	IRDA	LP
	40	30		18/6	SCP	LP
		35 or)				
	40	2/69)		27/6	MP	LP
	40	30		27/6	IRDA	LP
	40	30		3/7	IRDA	MS
	40	30		4/7	IRDA	LP
	40	30		10/7	IRDA	MS
	40	35		13/7	MP	MS
	40	2/63		13/7	Leduc	LP
Kotex Economy		149	153	13/3	MP	MS
		149		14/3	MP	LP
		149		30/4	MP	MS
	153	129		14/5	MP	MS
	153	115		15/5	IRDA	MS
	153	115		19/5	IRDA	LP
	153	115		22/5	IRDA	MS
	153	115		26/5	Leduc	MS
	153	115		28/5	SCP	LP
	153	115		29/5	IRDA	MS
	153	115		30/5	IRDA	LP
	153	115		3/6	Leduc	LP
	153	115		5/6	IRDA	MS
	153	115		8/6	Leduc	LP
	153	115		18/6	SCP	LP
	126	2/230		22/6	Leduc	LP
	153	115		27/6	IRDA	LP
	153	129		27/6	MP	LP
	153	115		3/7	IRDA	MS
	153	115		4/7	IRDA	LP
	153	115		10/7	IRDA	MS
	153	129		13/7	MP	MS
Kruschen Salts	75	58	69	28/5	MP	MS
	75	56		30/5	IRDA	LP
	75	56		5/6	IRDA	MS

	75	56		27/6	IRDA	LP
	75	58		27/6	MP	LP
	75	56		3/7	IRDA	MS
	75	56		4/7	IRDA	LP
	75	56		10/7	IRDA	MS
Kola Astier	150	98		14/5	MP	MS
	150	98		28/5	MP	MS
	150	98		28/5	SCP	LP
	150	98		3/6	Leduc	LP
	150	98		8/6	Leduc	LP
	150	98		13/6	MP	LP
	150	98		13/6	MP	MS
	150	98		18/6	SCP	LP
	150	98		27/6	MP	LP
	150	90		3/7	IRDA	MS
	150	90		4/7	IRDA	LP
	150	90		10/7	IRDA	MS
Lysol, small	43	33	43	14/5	MP	MS
		33		15/6	Leduc	LP
	43	33		27/6	MP	LP
Lysol, medium	73	67	79	14/5	MP	MS
		67		15/6	Leduc	LP
	73	67		27/6	MP	LP
Lysol, large	145	129	150	14/5	MP	MS
		129		15/6	Leduc	LP
	145	129		27/6	MP	LP
Naphthalene	18	2/25		15/5	IRDA	MS
	18	2/25		19/5	IRDA	LP
	18	2/25		22/5	IRDA	MS
	18	2/25		28/5	SCP	LP
	18	2/25		29/5	IRDA	MS
	18	2/25		30/5	IRDA	LP
	18	2/25		15/6	IRDA	LP
	18	2/25		5/6	IRDA	MS
	18	2/25		27/6	IRDA	LP
	18	2/25		3/7	IRDA	MS
	18	2/25		4/7	IRDA	LP
	18	2/25		10/7	IRDA	MS
Modess	40	35 or) 2/69)	2/79	14/5	MP	MS
	40	30		26/5	Leduc	MS
	40	30		3/6	ADS	MS
	40	35		27/6	MP	LP
	40	35		18/6	SCP	LP
	40	35		13/7	MP	MS
Modess	153	129	153	14/5	MP	MS
	153	115		26/5	Leduc	MS
	153	115		3/6	ADS	MS
	153	129		27/6	MP	LP
	153	129		18/6	SCP	LP
	153	129		13/7	MP	MS

Odorono Cream Deodorant	100	69		11/5	Leduc	LP
	98	69		19/5	Leduc	LP
	100	69		26/5	Leduc	MS
	100	69		3/6	Leduc	LP
	100	69		8/6	Leduc	LP
	100	69		13/6	MP	MS
	100	69		13/6	MP	LP
	100	69		15/6	Leduc	LP
Optrex	150	109	150	14/5	MP	MS
	150	109		26/5	Leduc	MS
	150	98		28/5	MP	MS
	150	109		28/5	SCP	LP
	150	98		3/6	Leduc	LP
	150	98		8/6	Leduc	LP
	150	98		13/6	MP	MS
	150	98		13/6	MP	LP
	150	98		18/6	SCP	LP
	150	98		27/6	MP	LP
Premarin, 100's	1045	898	1045	30/4	MP	MS
	1045	627		8/5	IRDA	MS
	1045	627		15/5	IRDA	MS
	1045	627		19/5	IRDA	LP
	1045	627		22/5	IRDA	MS
	1045	627		28/5	SCP	LP
	1045	627		29/5	IRDA	MS
	1045	627		30/5	IRDA	LP
	1045	627		3/6	ADS	MS
	1045	627		15/6	IRDA	LP
	1045	898		27/6	MP	LP
Pablum		43	48	9/3	Leduc	LP
	48	43		13/3	MP	MS
	48	43		14/3	MP	LP
		43		23/3	Leduc	LP
	48	43		30/4	MP	MS
	48	34		15/5	IRDA	MS
	48	34		19/5	IRDA	LP
	48	33		19/5	Leduc	LP
	48	34		22/5	IRDA	MS
	48	34		26/5	Leduc	MS
	48	33		28/5	SCP	LP
	48	34		29/5	IRDA	MS
	48	34		30/5	IRDA	LP
	48	34		3/6	Leduc	LP
	48	34		5/6	IRDA	MS
		34		15/6	Leduc	LP
	48	34		8/6	Leduc	LP
	48	34		15/6	IRDA	LP
	48	33		18/6	SCP	LP
	48	34		27/6	IRDA	LP
	50	39		27/6	MP	LP

	48	34		3/7	IRDA	MS
	48	34		4/7	IRDA	LP
	48	34		10/7	IRDA	MS
	50	39		13/7	MP	MS
	50	39		13/7	MP	LP
Nil-O-Nal	179	98		11/5	Leduc	LP
	179	98		3/6	Leduc	LP
	175	98		3/6	ADS	MS
	179	98		8/6	Leduc	LP
	179	98		13/6	MP	MS
	179	98		13/6	MP	LP
	179	98		15/6	Leduc	LP
Wildroot Cream Oil	75	63	73	28/5	MP	MS
	75	50		30/5	IRDA	LP
	75	50		3/6	Leduc	LP
	75	50		5/6	IRDA	MS
	75	50		8/6	Leduc	LP
	75	50		18/6	SCP	LP
	75	63		27/6	MP	LP
	75	50		27/6	IRDA	LP
	75	50		3/7	IRDA	MS
	75	50		4/7	IRDA	LP
	75	50		10/7	IRDA	MS
Wildroot Cream Oil	125	109	123	28/5	MP	MS
	125	84		30/5	IRDA	LP
	125	84		3/6	Leduc	LP
	125	84		5/6	IRDA	MS
	125	84		8/6	Leduc	LP
	125	84		18/6	SCP	LP
	125	109		27/6	MP	LP
	125	84		27/6	IRDA	LP
	125	84		3/7	IRDA	MS
	125	84		4/7	IRDA	LP
	125	84		10/7	IRDA	MS
Woodbury Shampoo	120	59		13/4	Leduc	LP
	120	59		20/4	Leduc	LP
	120	59		19/5	Leduc	LP
	120	59		26/5	Leduc	MS
	120	59		3/6	Leduc	LP
	120	59		8/6	Leduc	LP
	120	59		13/6	MP	LP
	120	59		13/6	MP	MS
	120	59		15/6	Leduc	LP
	120	59		13/7	Leduc	LP
Templeton's T.R.C. 36's	135	2/246	135	22/6	Leduc	LP
	135	114		13/7	MP	MS
	135	114		13/7	MP	LP

Kleenex, Man's size		35	2/71	13/3	MP	MS
		35		14/3	MP	LP
		35		30/4	MP	MS
	35	2/63		22/6	Leduc	LP
R. Hudnut Children's Home Permanent	195	97	225	13/3	MP	MS
	195	97		14/3	MP	LP
	195	97		3/6	ADS	MS
Noxzema Skin Cream	40	29		17/3	ADS	MS
	40	29		23/3	Leduc	LP
	40	29		19/5	Leduc	LP
	40	29		26/5	Leduc	MS
	40	29		3/6	Leduc	LP
	40	29		8/6	Leduc	LP

ANNEX I

QUESTIONNAIRE ON DRUG STORE SALES

1. Name of Pharmacy: . . . .

2. Address: . . . .

3. Annual volume of total sales for 1952 (approximate) $. . . . . .

4. Is your pharmacy a member of a co-operative buying group?

   Yes . . . . No . . . .

   A co-operative advertising group? Yes . . . . . No. . . . . . .

   Name of group:. . . . .

5. Is your pharmacy a store in an incorporated chain?

   Yes . . . . No . . . .

   Name of chain: . . . .

6. During June and July, 1953, did your pharmacy:-

   (a) sell any nationally advertised article at a price below the supplier's suggested price or the ordinary shelf price but above net purchase cost?*
   Yes . . . . No . . . .

   (b) If the answer to (a) is "yes", state the number of different items (including different sizes of the same item) so sold:
   . . . .

---

* Net purchase cost means billing total of the invoice (including duties, sales, excise and any other taxes applicable) plus transportation and delivery costs, less any discounts or allowances whether or not shown on the invoice but before cash discount.

N. B. : <u>In replying to Question 6 please omit all manufacturer-sponsored specials.</u>

(c) List the <u>five</u> items sold at the largest percentage reduction below the supplier's suggested price or the ordinary shelf price but above the net purchase cost and provide the following information for each item:-

Item	Selling Price	Period in Effect	Net Purchase Cost	Suggested or Ordinary Shelf Price
1.				
2.				
3.				
4.				
5.				

(d) Indicate by an "X" the manner in which the articles mentioned in paragraph (b) above were advertised: newspaper (co-operative) . . . . newspaper (individual) . . . . handbill: . . . . window announcement . . . . radio . . . . . other . . . .

7. During June and July, 1953, did your pharmacy:

(a) sell any nationally advertised article at or below net purchase cost?
Yes . . . . No. . . . .

(b) If the answer to (a) is "yes", state the number of different items (including different sizes of the same item) so sold:
. . . .

(c) List the <u>five</u> items sold at the largest percentage reduction below net purchase cost and provide the following information for each item:-

Item	Selling Price	Period in Effect	Net Purchase Cost	Suggested or Ordinary Shelf Price
1.				
2.				
3.				
4.				
5.				

(d) Indicate by an "X" the manner in which the articlesmentioned in paragraph (b) above were advertised: newspaper (co-operative) . . . . newspaper (individual) . . . . handbill . . . . window announcement . . . . radio . . . . other . . . .

8. List your total monthly sales volume for the following months and indicate any special factors which you believe affected your sales during this period:

Month	1952	1953
January	$	$
February	$	$
March	$	$
April	$	$
May	$	$
June	$	$
July	$	$

9. State the approximate dates when price reductions of the nature described in Questions 6 and 7 began . . . . .and ceased . . . .
(date) (date)

10. Are there any general considerations that determine what items are (were) sold in your pharmacy below the supplier's suggested price or ordinary shelf price, such as the seasonableness of the item, the discounts or allowances obtained from suppliers, the frequency of consumer use of the item, and so on? Please specify
. . . .
. . . .

11. What were the reasons for departing from the suggested or ordinary shelf prices in the case of the items referred to in your answers to Questions 6 and 7? Please specify . . . .
. . . .
. . . .

VIII. A SURVEY OF NEWSPAPER ADVERTISEMENTS IN GROCERY PRODUCTS FOR THE MONTH OF JANUARY, 1953

In order to ascertain in a general way the number of grocery items that were being advertised (1) below the "usual" selling prices in effect in chain stores, and (2) at or below the average chain store net buying price, a survey was made in four cities of newspaper advertisements inserted by integrated chains, associated retail buying groups, and other retailers during the month of January, 1953. The number of grocery items (excluding fresh meat and produce) covered by the advertisements shows two typical groupings: the large corporate chains, such as Loblaws, A. & P. Stores, Dominion Stores, and Safeway Stores, include from about fifty to sixty-five items in their usual weekly advertisements; the smaller chain systems, including the associated chains, and the grocery departments of department stores occasionally insert advertisements covering an equally large number of items but more commonly they include about fifteen to twenty-five items in their weekly advertisement. No attempt was made to compile an exact total of the number of items in the advertisements that were checked.

In Toronto, twenty-seven advertisements inserted by the following eight advertisers contained items falling in one or another of the two categories listed above:

Power Food Markets,
Dominion Stores,
Red & White Stores,
I. G. A. Stores,
Loblaws,
A. & P. Stores,
Superior Food & Carload Markets, and
Bassin's.

In Montreal, forty-four advertisements (French and English) inserted by the following six advertisers contained items falling within the scope of this survey:

Steinberg's,
Dominion Stores,
Richelieu Stores,
Thrift Stores,
Dionne Ltd., and
E. M. Grocery Store.

In Winnipeg, on the same basis there were nine advertisements inserted by the following five advertisers:

Safeway Stores,
T. Eaton Co. Ltd.,
Shop-Easy,
Jewel Stores,
Red & White Stores, and
Mall Meat Market.

And, in Vancouver, there were twenty-four advertisements inserted by the following seven advertisers containing items covered by the two categories above:

Woodward's,
Red & White Stores,
Safeway Stores,
B. & K. Economy Stores,
Super-Valu Stores,
United Purity Stores, and
Hudson's Bay Company.

It will be noted that the stores inserting advertisements are, with two exceptions (Mall Meat Market, Winnipeg; and E. M. Grocery Store, Montreal), integrated or associated chains, or grocery departments of large department stores.

The "base" prices, with which the advertised prices were compared, were compiled from information available in the Director's files for the period under consideration in the following manner. For each of the four cities for which advertisements were checked, average shelf prices were computed by taking the average of the regular selling prices reported by two of the major chain stores, or by one major chain store and the grocery department of a large department store for the period under review. Average net buying prices were computed by the same method. Meats and fresh produce were excluded from the survey because of obvious difficulties associated with the grade and condition of such products. With very few exceptions, information on this basis was available for all the items (apart from private brands) advertised. The bench marks of average regular shelf prices and average net buying prices calculated on the basis described above are obviously less satisfactory than the regular shelf prices and net buying prices of the individual advertisers would be. However, the impossibility of employing the latter basis and the interest attaching to testing all the advertisements against a common bench mark would appear to justify the method employed.

A. Toronto Advertisements

The Toronto advertisements yielded twenty-eight separate items offered at less than the average regular shelf price but above the average net buying price. Each of the eight advertisers listed above contributed to this total. Twenty-three items were reduced in price by only a single advertiser; two items were each reduced by two

advertisers; one item by three advertisers; one item by four advertisers; and one by six advertisers. The fact that only two items were reduced in price by four or more advertisers would suggest that there was very little competitive price-cutting during the period under survey. In these same advertisements there were four items offered at or below the average net buying price. Six of the eight advertisers listed above contributed to this total. Three of the four items were each sold at less than the average net buying price by a single advertiser; the remaining item was reduced by four advertisers.

B. Montreal Advertisements

There were twenty-seven separate items offered at less than the average regular shelf price but above the average net buying price in the Montreal advertisements. All six of the advertisers listed above for Montreal contributed to this total. Sixteen items were each reduced in price by only a single advertiser; four items were each reduced by two advertisers; one item was reduced in price by three advertisers; five items were each reduced by four advertisers; and one item was reduced by all six advertisers. There was a slightly greater tendency for the Montreal advertisers to repeat a given item than was the case in Toronto but there were very few examples of successive competitive price reductions by different retailers, most of the repeated items being offered at the same reduced price. In the same forty-four advertisements there were two items offered at or below the average net buying price. Three of the six advertisers offered such items. One of the two items was offered by a single advertiser and the other was offered by two advertisers.

C. Winnipeg Advertisements

In the Winnipeg advertisements there were eleven items offered at less than the average regular shelf price but above the average net buying price. Each of the five advertisers listed above for Winnipeg contributed to this total. Eight items were each reduced in price by a single advertiser; two items were each reduced by two advertisers; and one item was reduced by three advertisers. In the nine advertisements containing price reductions of interest to this survey, two items were advertised at or below the average net buying price as defined above, and both were offered by the same firm.

D. Vancouver Advertisements

There were six separate items offered at less than the average regular shelf price but above the average net buying price in the Vancouver advertisements. Each of the seven advertisers listed above for Vancouver contributed to this total. Three items were each reduced in price by a single advertiser and three items were each reduced in price by two advertisers. In the same group of advertisements, a single item was offered at or below the average net buying price and it was offered by only one advertiser.

Perhaps the most interesting aspects of this survey of newspaper advertisements in grocery products are:

(1) The differences in the number of price reductions advertised in the four cities.

(2) The marked degree to which all advertisers participated in the price reductions.

(3) The very limited number of items sold below average net buying price.

(4) The limited number of cases in which competitive "under-cutting" of prices apparently occurred.*

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* In this section the term "competitive" as applied to price reductions refers to the reduction of price on <u>the same item</u> by different retailers.

IX. SURVEY OF PRICE REDUCTIONS IN THE SALE OF HOUSEHOLD ELECTRIC APPLIANCES

During the summer months of 1953 the Director from time to time received complaints from both retailers and manufacturers of household electric appliances about the frequency and the extent of price reductions being made at the retail level on many items in this field. The complaints, although coming from small as well as large cities, most frequently referred to conditions in the larger metropolitan centres such as Toronto, Montreal, Winnipeg and Vancouver. In addition to these complaints from individual retailers and manufacturers, the Director received representations from the Ontario Association of Radio, Television and Appliance Dealers Inc., on the same subject.

A. Distribution of Questionnaires

In an attempt to obtain information on the extent of price reductions in this field a questionnaire was prepared (which is attached as Annex I) and was circulated on September 8, 1953, to 174 retail dealers in household electric appliances. The list of dealers was compiled, first, by selecting those dealers that advertised more or less extensively in the daily newspapers, and, second, by making a selection of dealers from the directories of the various cities. In making this latter selection care was taken to include a substantial proportion of small retailers. The number of questionnaires despatched to retailers in various Canadian cities was as follows:

Toronto	36
Montreal	31
Vancouver	17
Hamilton	18
Winnipeg	15
Calgary	10
Edmonton	10
Ottawa	6
Quebec, P.Q.	6
Regina	5
Saint John, N.B.	3
Halifax	3
	160

In addition, a single questionnaire was sent to a retailer in each of the following centres: Fredericton, and in Ontario - Windsor, Glencoe, Collingwood, Woodstock, Stevensville, Orillia, Port Colborne, St. Catharines, London, Kitchener, Durham, St. Thomas and Niagara Falls.

The questionnaire related to price reductions during the months of June and July, 1953.

Fifty completed questionnaires were returned, of which forty-four were from independent and six from chain stores. In addition, a return was received from a very large multiple-unit store, which was among those that did not reduce prices on household electric appliances. Because of difficulties associated with disclosure of the sales experience of this firm, this return has been omitted from the summary that follows. It can be stated, however, that this firm showed a sharper decline in sales in 1953 than was characteristic of any of the groups reported below.

Of the forty-four independents that submitted completed questionnaires, one completed a return for each unit of a two-unit store. Hence separate returns were received covering forty-five independent outlets. The six chain-store returns covered a total of twenty-five outlets. Hence, information was received covering seventy outlets (forty-five independent and twenty-five multiple-unit), and the subsequent analysis will deal with the number of outlets rather than the number of stores, except where otherwise noted.

Distribution of the replies received, by city of origin, whether for a chain or independent outlet, whether the outlet did not observe the supplier's suggested price ("A") or did observe such suggested price ("B"), is set out in the following table. It will be observed that only one of the thirty-two independent retailers who did not observe the supplier's suggested price was found in the seven smaller cities grouped together in the last line of this table, whilst six of the thirteen independent retailers who did observe the supplier's suggested price were found in these cities.

City of Origin	Chains*		Independents		
	A	B	A	B	Total
Toronto, Ontario	1	-	10	1	12
Montreal, P. Q.	6	6	3	-	15
Vancouver, B. C.	9	-	4	3	16
Hamilton, Ontario	-	-	1	-	1
Edmonton, Alberta	-	-	2	-	2
Calgary, Alberta	-	-	4	-	4
Ottawa, Ontario	-	-	1	2	3
Halifax, N. S.	-	-	1	-	1
Winnipeg, Manitoba	3	-	4	-	7
Quebec, P. Q.	-	-	1	1	2
Single returns from other Cities	-	-	1	6	7
Total	19	6	32	13	70

* Chain stores are stores with three or more separate outlets.

B. Total and Average Sales Volume of Reporting Retailers

Information on total sales for the year 1952 was furnished for sixty-one of the seventy outlets covered by the returns. In two cases it was indicated that appliance sales accounted for only a minor proportion of the total sales reported, and since appliance sales were not reported separately the sales data for these two outlets were omitted. The aggregate 1952 sales of the remaining fifty-nine outlets were $23,273,384.00, and average sales per outlet amounted to approximately $394,464.00. The average sales per outlet for the twenty-five outlets of the multiple-unit stores were about $437,618.00, and the average sales per outlet for the thirty-four outlets of the independent stores amounted to $363,064.00.

C. Number of Items Sold Below Supplier's Suggested Price but Above Net Purchase Cost

Of the thirty-two independent retailers selling at reduced prices, nineteen replied in specific fashion to question 5(b) relating to the number of different items which were sold below the manufacturer's suggested selling price but above net purchase cost. Of these nineteen, five, reporting on six outlets, stated that "all items" were sold at reduced prices and one independent stated that 90 per cent of all sales were at reduced prices. The remaining thirteen replies provided the following information.*

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* It will be noted that one of the stores reported selling only one item below the suggested selling price and two stores reported selling only two items below the suggested selling price. It might appear that these stores should not be included in the general category of stores that sold appliances at reduced prices. However, a single popular appliance offered at a reduced price might well prove to be a more effective "leader" item than a larger number of less well-known lines offered at reduced prices. In the case of the store offering only one item below suggested price such was the case, the item being a Canadian General Electric polisher. In the case of the stores offering only two items at reduced prices there was a similar concentration on well-known lines. It would, therefore, not appear to be justifiable to exclude these stores from the category of those selling at reduced prices.

Number of different items sold below the suggested selling price but above net purchase cost	Number of stores reporting
1	1
2	2
3	2
5	2
7	1
9	1
12	1
15	1
34	1
118	1
	13

In addition to these replies, there were two of a more general nature; one retailer stated that the items sold below the supplier's suggested price but above net purchase cost were "too numerous to mention", while another remarked, "Suggested prices are no longer observed by the majority of dealers."

Five multiple-unit stores, comprising nineteen units, provided information on the number of items sold on the basis of question 5(b). Their replies are reported individually.

Number of different items	Number of outlets covered by reply
9	3
23	5
50 to 100	4
"Store-wide sale of all items"	6
"Nearly all sales are below manufacturer's list price."	1
	19

D. The Dates When Price Reductions Began and Ceased

In reply to question 9 retailers were asked to state the date on which price reductions of the nature described in questions 5 and 6 began and the date on which they ceased. Thirty-three replies were received covering one or both parts of this question.

A few replies relating to the onset of price reductions gave general rather than specific dates; for example, one retailer stated that price reductions were "Continuous", others stated that price reductions began in "1949", "Early in 1952", in "1952", and in "Spring, 1953". The remaining twenty-seven mentioned specific months which are distributed on a quarterly basis as follows:

4th	Quarter,	1951	- 1
1st	"	1952	- 13
2nd	"	1952	- 2
3rd	"	1952	- 0
4th	"	1952	- 1
1st	"	1953	- 1
2nd	"	1953	- 8
3rd	"	1953	- 1
			27

From these data it would appear that there were two periods in which the initiation of price reductions tended to occur: the first quarter of 1952 and the second quarter of 1953.

In reply to that part of the question relating to the date on which price reductions ceased, one retailer stated only "Summer, 1953"; twenty-one others either named specific months or indicated that price reductions were still in effect as follows:

2nd Quarter, 1953	- 4
"Still in Effect"	- 17
	21

If the remaining eleven replies which, although listing a date for the initiation of price reductions, did not name a date for the cessation of price reductions, were interpreted as reporting that price reductions were still in effect, it would appear that a very high proportion of the retailers reporting were "still" selling household electric appliances at reduced prices.

E. Number of Items Sold at or Below Net Purchase Cost

In reply to question 6, five independent retailers reported a total of eight appliances which they had sold at less than net purchase cost. No chain store reported any sale below net purchase cost. In view of the limited number of items reported as being sold below net purchase cost, the data reported by each of the five independent retailers are reported in full. The retailers did not report the number of units of each item that were sold at the reduced price.

	Items sold by Independent Dealers Below Net Purchase Cost	Net Purchase Cost	Selling Price	Suggested Selling Price	Per Cent Reduction from Suggested Selling Price	Percentage Loss on Cost
		$	$	$	%	%
1.	Television	300.00	240.00	419.00	42.7	20.0
2.	Washers	132.00	125.00	199.00	(Trade-in required)*	
3.	Electric Kettles	9.95	9.95	14.95	33.4	0.0
	Electric Iron	9.95	9.95	14.95	33.4	0.0
4.	Television	212.53	199.00	329.00	39.5	6.4
	Lamps	7.80	7.00	12.95	45.9	10.3
5.	Princess Rd. 1003 Refrigerator	234.25	228.00	249.00	34.7	2.7
	Croyden Television	250.00	219.00	379.00	42.2	12.4

* Actual selling price would be increased by the value of the trade-in, hence no attempt has been made to compute the percentage reduction or loss.

F. Number of Items Reduced by Type of Appliance and Percentage Reductions Applicable

Questions5 (c) and 6 (c) asked for a list of the five items sold at the largest percentage reduction below the manufacturer's suggested price but above the net purchase cost; and of the five items sold at the largest percentage reduction below net purchase cost, respectively.

In all, reports on 126 appliances were made in sufficient detail to make possible the computation of percentage reductions from the supplier's suggested price. This total includes seven items that were sold at or below net purchase cost. In a number of the following tables the items sold at less than net purchase cost are clearly identified.

Table I lists the number of each type of appliance sold at less than the suggested selling price and also allocates this number among the various percentage-reduction categories. For example, there were nineteen electric washers sold at less than the supplier's suggested price, of which one was sold between 5 and 10 per cent below the suggested price, four were sold between 10 and 15 per cent below the suggested price and so on. Appliances sold at less than the net purchase cost are listed in parentheses. The appliances are listed approximately in the order of the magnitude of the percentage price reductions which they experienced. At the foot of each column averages of the prices of the appliances subject to the percentage reduction for that column are shown. There is an imperfect tendency for the higher percentage reductions to be associated with the lower-priced appliances.

TABLE I

Table of Appliances Sold at Reduced Prices for Which Suggested and Actual Selling Price Data were Provided by Electric Appliance Dealers Completing Questionnaires, by Type of Appliance and Percentage Reductions

1	2	3									
Type of Appliance	Total	Number of Appliances sold at the Percentage Reductions Indicated from the Suggested Selling Price									
		5% & under 10%	10% & under 15%	15% & under 20%	20% & under 25%	25% & under 30%	30% & under 35%	35% & under 40%	40% & under 45%	45% & under 50%	50% & under 55%
		1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Radio Combinations	1	-	1	-	-	-	-	-	-	-	-
Sewing Machines	1	-	-	1	-	-	-	-	-	-	-
Washers	19	1	4	1	8	2	3	-	-	-	-
Refrigerators	36	1	7	2	15	9	1(1)	-	-	-	-
Gas Ranges	1	-	1	-	-	-	-	-	-	-	-
Electric Ranges	18	-	2	7	5	4	-	-	-	-	-
Floor Polishers	11	-	1	2	2	3	2	1	-	-	-
Toasters	3	-	-	1	1	1	-	-	-	-	-
Television	8	-	-	1	2	1	1	-(1)	-(2)	-	-
Radios (over $50.00) (S. S. P.)	3	-	-	1	1	-	-	-	1	-	-
Radios (under $50.00) (S. S. P.)	4	-	-	1	1	1	-	1	-	-	-

Table I, Continued

1	2	3									
		1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Kettles	8	-	-	1	1	-	5(1)	-	-	-	-
Irons	7	-	-	1	1	-	4(1)	-	-	-	-
Electric Mixers	2	-	-	-	1	1	-	-	-	-	-
Sound Projectors	1	-	-	-	-	1	-	-	-	-	-
Vacuum Cleaners	1	-	-	-	-	-	-	1	-	-	-
Lamps	1	-	-	-	-	-	-	-	-	-(1)	-
Electric Clocks	1 -	-	-	-	-	-	-	-	-	-	1*
Totals	126	2	16	19	38	23	16(3)	3(1)	1(2)	(1)	1
Average price of appliances		299.48	291.37	226.45	284.46	258.31	95.28	128.24	285.58	12.95	14.95

* One multiple-unit store reported the sale of an electric clock on the basis of the following data:

Supplier's suggested price	-	$14.95
Net Purchase cost	-	5.32
Selling price	-	6.95

Table II shows the average percentage reduction from the suggested selling prices in effect for each type of appliance, the reduction being computed by aggregating the suggested selling prices and the actual selling prices for the appliance in question and from these data deriving the percentage reduction from the suggested selling prices.

TABLE II

Table Showing Percentage Reductions from Suggested Selling Prices for the Different Types of Electric Appliance

Type of Appliance	No.	Aggregate selling prices	Aggregate suggested selling prices	Percentage reduction of aggregate selling prices from aggregate suggested selling prices
		$	$	%
Gas Ranges	1	139.50	159.50	12.5
Radio Combinations	1	199.95	229.95	13.0
Sewing Machines	1	149.50	179.95	16.9
Electric Ranges	18	4,848.00	6,061.75	20.1
Washers	19	3,058.40	3,858.40	20.7
Refrigerators	36	10,739.60	13,625.00	21.2
Radios (S.S.P. over $50.00)	3	412.95	526.75	21.6
Toasters	3	65.85	85.40	22.9
Floor Polishers	11	521.68	699.45	25.4
Electric Mixers	2	94.25	128.25	26.5
Radios (S.S.P. under $50.00)	4	97.40	133.85	27.2
Irons	7	73.18	102.85	28.8
Kettles	8	83.08	117.35	29.2
Sound Projectors	1	189.50	269.50	29.7
Television Sets	8	2,280.00	3,282.00	30.5
Vacuum Cleaners	1	49.95	79.50	37.2
Lamps	1	7.00	12.95	45.9
Electric Clocks	1	6.95	14.95	53.5
Total	126			

G. Percentage Mark-up on Cost on Appliances Reduced in Price

In Table III the percentage mark-ups applicable to the various appliances that were reported by retailers as showing the largest percentage reduction in price are listed for each appliance by percentage categories. It will be noted that there are seven cases, shown in parenthesis, of appliances being sold at or below net purchase cost.

Although the mark-ups cover a wide range from -17.5 per cent to 62.5 per cent, almost 60 per cent of the cases fall within a mark-up range of 17.5 per cent to 32.5 per cent on cost.

TABLE III

Percentage Mark-up on Cost on Appliances Reported by Retailers as Being Reduced in Price

Type of Appliance	Total	(1) -20% and under -15%	(2) -15% and under -10%	(3) -10% and under -5%	(4) -5% and under 0%	(5) 0% and under 5%	(6) 5% and under 10%	(7) 10% and under 15%	(8) 15% and under 20%	(9) 20% and under 25%	(10) 25% and under 30%	(11) 30% and under 35%	(12) 35% and under 40%	(13) 40% and under 45%	(14) 45% and over
Refrigerators	35[1]	-	-	-	(1)	-	4	3	5	8	9	4	-	-	1[2]
Washers	19	-	-	-	-	-	1	-	2	1	2	6	2	4	1[3]
Electric Ranges	18	-	-	-	-	-	-	1	4	3	2	5	2	1	-
Floor Polishers	11	-	-	-	-	3	1	2	4	-	1	-	-	-	-
Television	8	(1)	(1)	(1)	-	1	1	1	2	-	-	-	-	-	-
Kettles	8	-	-	-	-	4(1)	-	1	-	-	2	-	-	-	-
Irons	7	-	-	-	-	2(1)	1	1	-	-	2	-	-	-	-
Radios (under $50.00 S.S.P.[4])	4	-	-	-	-	-	2	-	-	1	1	-	-	-	-
Radios (over $50.00 S.S.P.)	3	-	-	-	-	-	-	-	1	2	-	-	-	-	-
Toasters	3	-	-	-	-	-	-	2	-	-	-	-	1	-	-

Table III, Continued

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Electric Mixers	2	-	-	-	-	-	1	-	1	-	-	-	-	-	-
Gas Ranges	1	-	-	-	-	-	-	-	-	-	-	-	1	-	-
Radio Combinations	1	-	-	-	-	-	-	-	-	1	-	-	-	-	-
Sewing Machines	1	-	-	-	-	-	-	-	1	-	-	-	-	-	-
Sound Projectors	1	-	-	-	-	-	-	-	-	-	-	-	1	-	-
Vacuum Cleaners	1	-	-	-	-	-	-	-	-	-	1	-	-	-	-
Lamps	1	-	(1)	-	-	-	-	-	-	-	-	-	-	-	-
Electric Clocks	1	-	-	-	-	-	-	-	-	-	-	1	-	-	-
Totals	125	(1)	(2)	(1)	(1)	10(2)	11	11	20	16	20	16	7	5	2

1 It will be noted that the tables summarizing the reductions from suggested selling prices show thirty-six refrigerators in this group. One retailer, however, did not state his net purchase cost for one model of refrigerator. The mark-up in respect of this model could not therefore be computed for inclusion in this table.

2 (64.4%) A multiple-unit store reported the following data for this case: Suggested selling price - $399.95; Net Purchase cost - $225.00; Selling price - $369.95

3 (47.4%)

4 Supplier's suggested selling price.

In Table IV are listed the average percentage mark-ups (or individual in the case of single appliances) on cost for each type of appliance. These percentages are calculated on the basis of the aggregate net purchase costs and actual selling prices reported by retailers for the items sold by them at the largest percentage reduction below the supplier's suggested price.

TABLE IV

Table Showing Percentage Mark-up on Cost Taken on the Different Types of Electric Appliance Offered at Reduced Prices

Type of Appliance	No.	Aggregate purchase prices	Aggregate actual selling prices	Percentage mark-up on cost
Lamps	1	7.80	7.00	-10.3
Television Sets	8	2,199.02	2,280.00	3.68
Kettles	8	76.18	83.08	9.06
Irons	7	65.82	73.18	11.18
Floor Polishers	11	463.78	521.68	12.48
Electric Mixers	2	82.87	94.25	13.73
Sewing Machines	1	129.00	149.50	15.9
Radios (under $50.00 S.S.P.)	4	83.22	97.40	17.04
Toasters	3	54.53	65.85	20.75
Refrigerators	35	8,530.05	10,434.60	22.33
Radio Combinations	1	163.30	199.95	22.44
Radios (over $50.00 S.S.P.)	3	332.60	412.95	24.16
Vacuum Cleaners	1	39.75	49.95	25.7
Electric Ranges	18	3,840.15	4,848.00	26.25
Electric Clocks	1	5.32	6.95	30.6
Washers	19	2,307.57	3,058.40	32.54
Sound Projectors	1	140.00	189.50	35.4
Gas Ranges	1	102.00	139.50	36.76
Total	125			

H. Comparative Percentage Reductions and Mark-ups for Chain and Independent Dealers

In the following table a comparison is made of the percentage mark-up on cost and the percentage reduction from the supplier's suggested price for independent stores and for multiple-unit stores on each type of appliance for which comparative data are available. The percentages were based on the aggregate suggested selling prices, actual selling prices and net purchase costs reported by the two categories of retailer for the number of appliances shown

in parentheses. That is, for "Refrigerators", the percentage mark-up on cost for independent retailers was based on cost and selling price data provided for thirty refrigerators and for multiple-unit retailers on cost and selling price data for five refrigerators (although these were sold in a larger number of outlets).

For the last five categories of appliance in Table V (Irons, Radios in two sub-groups, Toasters and Electric Mixers), the comparative percentages are based on a very small sample. If attention is directed to the first five categories - Refrigerators, Washers, Ranges, Floor Polishers and Television Sets - it appears that the multiple-unit stores took a higher percentage mark-up on cost on four of the five categories, and that the independent stores made the greater percentage reductions from the suggested selling price on three of the five categories of appliances.

TABLE V

Comparison Between Chain and Independent Dealers' Percentage Mark-ups on Cost and Percentage Reductions from Suppliers' Suggested Selling Prices for the Different Types of Electric Appliances

Type of Appliance[1]	Percentage Mark-up on Cost		Percentage Reduction from S. S. P.	
	Independent	Chain	Independent	Chain
Refrigerators	(30)21.03	(5)31.13	(31)21.31[2]	(5)20.33
Washers	(15)32.77	(4)31.65	(15)19.85	(4)24.04
Ranges	(16)24.88	(2)38.92	(16)19.97	(2)21.18
Floor Polishers	(9)11.26	(2)18.05	(9)25.90	(2)23.26
Television Sets	(6)-1.39	(2)16.73	(6)32.54	(2)25.72
Irons	(6)12.31	(1) 4.52	(6)28.07	(1)33.44
Radios (under $50.00 S. S. P.)	(3)19.85	(1) 9.57	(3)22.84	(1)37.55
Radios (over $50.00 S. S. P.)	(1)24.38	(2)23.96	(1)16.74	(2)25.65
Toasters	(2)23.49	(1)16.53	(2)22.02	(1)24.28
Electric Mixers	(1) 7.65	(1)19.85	(1)29.80	(1)23.25

1 The comparisons are limited to those types of appliance in respect of which information was supplied by both chain and independent stores.

2 The suggested and actual selling prices were provided for thirty-one refrigerators but net purchase cost data were provided for only thirty refrigerators, hence the difference in the numbers of units on which mark-up and reduction percentages are based.

I. Sales Experience of Retailers Returning Questionnaires

Question 7 requested information on the monthly dollar volume of sales for the period January-July (inclusive), 1952 and 1953. Replies were received covering forty-six outlets, divided as follows:

Independents that did not reduce prices	-	4
Independents that did reduce prices	-	23
Multiple-unit stores that did reduce prices	-	19
		46

An average of monthly sales for the period January-July (inclusive), 1952, was used as the basis for calculating indices for each month of the two periods for which sales data were supplied. Because of the wide fluctuations that characterized the sales data reported, an average based on sales for a 7-month period is likely to yield a more "representative" base than sales for an individual month. The sales of the different categories of retailers set out above, with the sales for the group of retailers, independent and chain together, that made reductions in the prices of appliances are shown in the following table.

TABLE VI

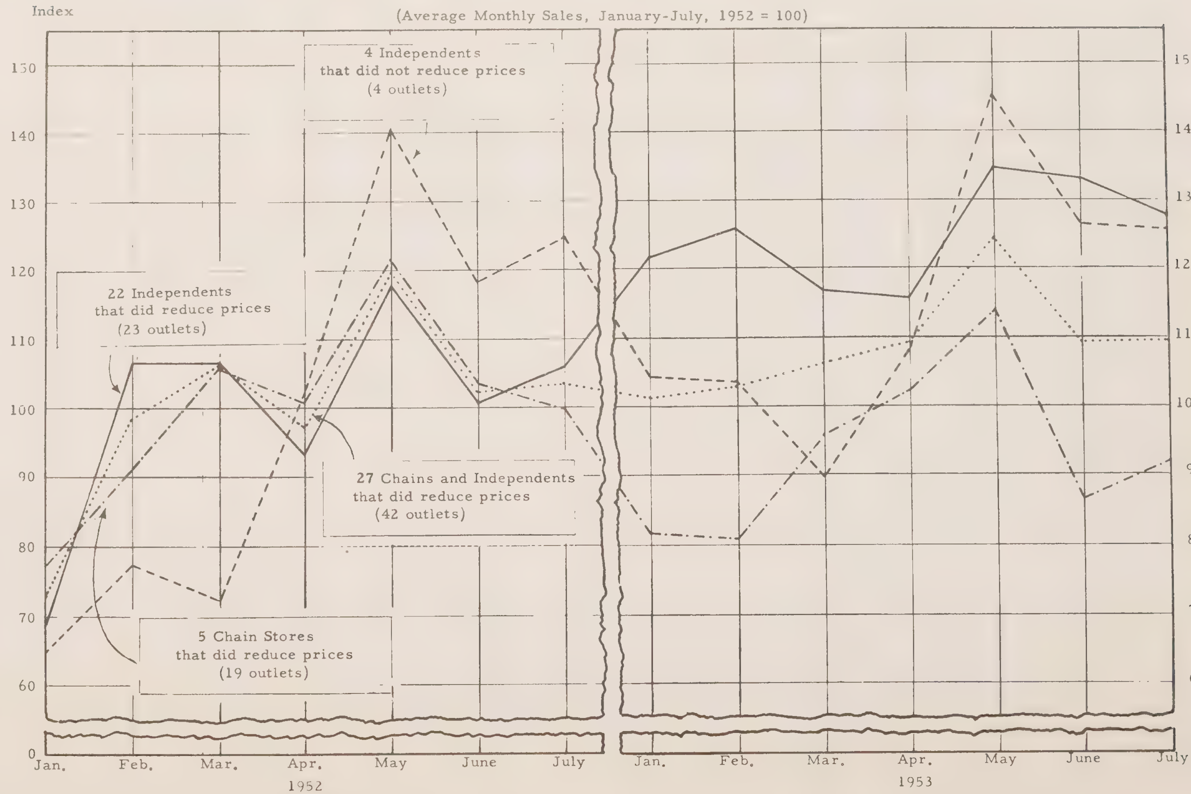
		4 Independents that did not reduce prices (4 outlets)	27 Chain and Independent Stores that did reduce prices (42 outlets)	5 Chain Stores that did reduce prices (19 outlets)	22 Independents that did reduce prices (23 outlets)
1952	January	65.0	73.2	77.5	68.8
	February	77.3	98.5	90.9	106.3
	March	72.2	106.2	105.8	106.6
	April	102.2	97.1	100.9	93.3
	May	140.3	119.5	121.4	117.5
	June	118.1	102.1	103.7	100.5
	July	124.9	103.4	99.8	107.0
1953	January	104.4	101.3	81.6	121.6
	February	103.7	103.0	80.8	126.0
	March	89.9	106.2	95.9	116.9
	April	108.2	108.9	102.4	115.7
	May	145.1	124.2	113.8	134.9
	June	126.8	109.4	86.7	133.0
	July	125.8	109.5	92.1	127.6

These data are reproduced in graphic form on Chart 1.

CHART 1

FLUCTUATIONS IN AGGREGATE MONTHLY SALES VOLUME OF ALL TYPES OF STORES REDUCING PRICES AND STORES NOT REDUCING PRICES - JAN.-JULY, 1952 AND JAN.-JULY, 1953

(Average Monthly Sales, January-July, 1952 = 100)



Source: Household Electric Appliance Store Sales Survey - September, 1953

To the extent that any inferences can be drawn from these sales data, it appears that the independent stores which reduced prices experienced the largest and most stable increase in sales in 1953 over the 1952 7-month average base, of the three groups included. The index for the independent stores that did not reduce prices is based on a small number of reports and displays more extreme fluctuations than the indices for the other two groups but it also indicates a considerably better sales record in 1953 (over the 1952 base) than was the case with the chain stores, although falling short of the sustained high level of sales reported by the independents that reduced prices. The chain stores that reduced prices also experienced marked fluctuations in sales in 1953 and in contrast to the other groups saw their sales for all but two months in 1953 (April and May) fall below the 7-month 1952 average.

The average monthly sales per outlet for the three groups shown in Table VI were as follows:

	1952
4 Independents that did not reduce prices	$11,770
22 Independents that did reduce prices	29,360
5 Chain Stores that did reduce prices	36,770

In order to explore the comparative sales experience of large and small dealers in further detail, the twenty-two independent retailers that reduced prices were classified into "large" and "small" categories, the dividing line between the two groups being sales of $20,000 per month during the first quarter of 1952. On this basis there were fifteen "small" independent retailers (with fifteen outlets) and seven "large" independent retailers (with eight outlets). The following table reports their sales experience on the basis of the 7-month average for 1952 equalling 100.

TABLE VII

		"Small" Retailers	"Large" Retailers
1952	January	42.4	81.5
	February	96.7	110.0
	March	133.0	93.8
	April	107.5	86.4
	May	109.1	121.6
	June	101.8	99.9
	July	109.5	105.8
1953	January	97.2	133.3
	February	105.6	135.8
	March	125.4	112.8
	April	121.5	112.9
	May	110.9	146.5
	June	141.2	129.0
	July	124.2	129.2

Chart 2 sets out these figures in graphic form.

There is no clear differentiation between the sales records of the two categories of appliance dealers. They both follow a rising trend of roughly similar path, but the peaks and the troughs in the sales of the "small" retailers in a number of cases lag behind the peaks and troughs in the sales of the "large" retailers by about a month. Apart from this feature, however, it is difficult to discern any significant difference in their sales curves.

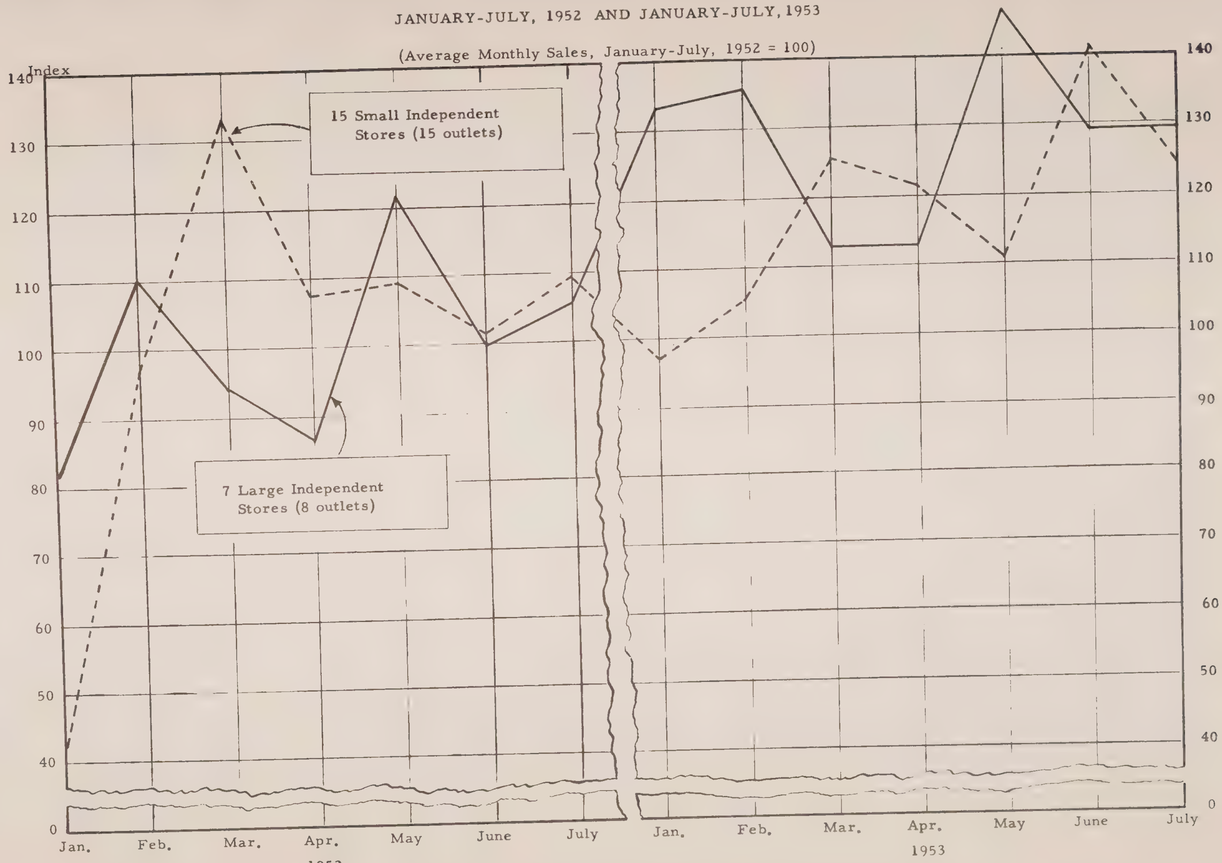
J. Brands of Appliances Reduced in Price

Of the 126 appliances on which data on costs and selling prices were provided in reply to questions 5 and 6, seventy-six appliances could be identified as the products of specific manufacturers. The remaining fifty appliances were reported merely by the type of appliance, viz., refrigerator, range, and so on. In the following table the seventy-six reports on appliances that were reduced in price are classified by manufacturer or brand name.

CHART 2 FLUCTUATIONS IN AGGREGATE MONTHLY SALES VOLUME OF INDEPENDENT STORES REDUCING PRICES

JANUARY-JULY, 1952 AND JANUARY-JULY, 1953

(Average Monthly Sales, January-July, 1952 = 100)



Source: Household Electric Appliance Store Sales Survey - September, 1953

TABLE VIII

Manufacturer or brand name	Number of appliances subject to price reductions
Canadian General Electric	37
Westinghouse	5
Deepfreeze	4
Hotpoint (General Electric brand)	3
Admiral	3
Coldspot	2
R. C. A. Victor	2
Sunbeam	2
McClary	2
Crosley	2
Norge	2
Easy	2
Northern Electric	2
Maytag	1
Princess	1
Inglis	1
Gurney	1
I. H. C.	1
Morphy-Richards	1
Croyden	1
Addison	1
Total	76

Of the above seventy-six appliances, forty-one were items that were reported only once in the questionnaires received. The remaining thirty-five reports related to seven appliances, distributed as follows:

Model	Number of times reported
C.G.E. Polisher	11
C.G.E. Kettle K42	8
C.G.E. Iron F80	7
C.G.E. Range (389.50, 389.00, 399.00)*	3
Norge Refrigerator (339.00, 339.00)*	2
Westinghouse Refrigerator (409.00, 409.00)*	2
Sunbeam Mixmaster	2
Total	35

* These suggested selling prices, due to their uniformity, are assumed to apply to the same models, although the model numbers were not quoted by the appliance dealers supplying these figures.

From these data it appears that roughly one-third of the reports on items which were reduced in price and which could be specifically identified dealt with the electric polisher, the electric kettle and the electric iron (F80) produced by Canadian General Electric. This manufacturer, in correspondence with the Director, made certain representations as to the impact of the price reductions on these three lines which are quoted in detail.

"1. Retailers purchasing at $8.70 offered kettles and irons as low as $8.95, with prices between $9.67 and $9.95 very common. The floor polisher reached a low of $41.65.

From our observations it would appear that the retailers motives in order of importance were:

(a) To attract customers to their stores in order to sell them other merchandise on which they have a longer margin of profit.

(b) To greatly increase their sales volume by cashing in on the sales efforts of other retailers in the same metropolitan area who stock and promote the same product.

(c) To maintain their reputation that 'They will not be undersold.'

(d) To spite CGE because of some alleged sins of omission or commission on CGE's part in the past.

2. Retailers who were the first or among the first to advertise a low price in a community tapped the reservoir of people who had already made up their minds to buy and took orders for more kettles, irons and polishers in one or two days than they would normally sell in six months or a year. Included in the ads I am sending you is an ad placed by Eaton's in Calgary advertising the polisher at $43.50. Believe it or not, Eaton's in one day took orders for approximately 10% of all the GE floor polishers we sold in Calgary during all of 1952! You can well imagine the effect of this on other retailers in the area who participated in the cost of pre-selling this group of people. Eaton's in Winnipeg did the same thing with thesame results.

3. Only about 1% or 2% of the total number of retailers handling our kettles, irons and polishers advertised them as 'loss leaders.' Out of more than 5,000 dealers stocking and displaying our kettle and iron in 1952 only about 20 or 30 were ringleaders in cutting prices.

4. In 1952 our total unit sales of electric kettles and Featherweight irons were down about 30% from 1950.*

5. In spite of our repeated explanations of the current legislation, the majority of retailers blame us for the 'loss leadering' that has been going on and continually press us to 'Do something about it.' This attitude has resulted in a heavy loss of prestige for our products and our company with both the retailers and the public.

6. In some parts of Canada (Head of the Lakes, Saskatoon, Maritimes) retailers have generally been selling at our suggested prices. In these areas our unit sales were relatively higher than in the areas of heavy price cutting.

7. Many small retailers who used to display our kettles, iron, and floor polisher prominently and sell good quantities either stopped selling them altogether or adopted a practice of not displaying them prominently and promoting sales.

8. Some of the large department stores who used to be our best outlets withdrew our products from sale and transferred their sales efforts to other makes, including their

* It may be pointed out that 1950 was a year of very high sales. See the data on production and shipments of electric appliances in Annex 2 to this Section. Director.

own brands. Once upon a time the larger departmental stores followed the practice of buying merchandise similar to nationally advertised lines with their own brand name so that they could under-sell comparable items. Now the shoe is on the other foot, and the department stores are seeking lines with their own brand names in order to permit them to sell at prices above the levels established by 'loss leadering' dealers.

9. Many users who have bought at bargain prices have been unable to obtain satisfactory service from the retailer."

K. Advertising Media Employed

In reply to question 5(b) concerning the media employed in advertising appliances sold at less than the supplier's suggested price but above net purchase cost, one retailer reported that he did not use any form of advertising and one did not reply to the question. Both of these were independent retailers. Dealers reporting for the remaining forty-nine of the fifty-one outlets that reduced prices provided the following information:

Advertising Medium	Number Employing	Percentage (49 = 100%)
Newspaper	42	85.7
Window announcement	23	46.9
Radio	9	18.4
Handbills	4	8.2
Total	78	

It will be noted that the total frequency of employment of the various media exceeds the number of those reducing prices. This is explained by the fact that some dealers employed several avenues of advertisement. The summary above included both chain and independent outlets. Information supplied in regard to the nineteen chain outlets included, none of which employed more than one advertising medium, was as follows:

Advertising Medium	Number Employing	Percentage (19 = 100%)
Newspaper	16	84.2
Window Announcement	3	15.8

The figures applicable to the thirty independent outlets employing advertising media were:

Advertising Medium	Number Employing	Percentage (30 = 100%)
Newspaper	26	86.7
Window Announcement	20	66.7
Radio	9	30.0
Handbills	4	13.3
Total	59	

The replies to question 6 (d) concerning the media used in advertising those items sold at less than net purchase cost are as follows:

Advertising Medium	Number of Outlets Employing	Number of Appliances Advertised
1. Newspaper Window Announcement	1	1
2. Newspaper	1	2
3. Newspaper Window Announcement Radio	1	2
4. Window Announcement	1	1

The fifth independent dealer reporting the sale of two models at below net purchase cost did not complete question 6(d).

L. Special Factors Affecting Sales During the Periods, January-July (inclusive) 1952 and 1953

Question 8 asked if there were any special factors which in the opinion of the dealer affected his sales during the two periods for which sales data were requested. The replies, with few exceptions, related to factors that might be expected to affect sales over a substantial number of outlets rather than to factors that were of special significance to a single outlet.

To provide some background for the elements considered by the retailers to be important in influencing their sales during the 7-month periods of 1952 and 1953 covered by this survey, brief reports have been included in parentheses as to whether sales for the 1953 period were equal to, greater than, or less than sales in the corresponding period of 1952.

From those dealers that did not reduce prices on household electric appliances only five replies were received to this question, as follows:

> "Cut-throat sales in Toronto papers during the months June and July seriously affected our business." (Sales higher in 1953)

> "We could not begin to compete with prices advertised by several of the large stores, and therefore lost a large amount of our appliance business during 1952 and 1953. To offset this loss of business, we added other lines because our appliance sales for this period were practically nil." (Sales higher in 1953)

> "La plus grosse compétition existe entre les marchands eux-mêmes et les distributeurs sur les prix." (Sales higher in 1953)

> "Cut prices - crazy trade-ins, clearance models by manufacturers. Some manufacturers gave special discounts but maintained prices to allow for trade-ins. Some stores sold goods at cost, to liquidate." (Sales higher in 1953)

> "Our increase in sales is due to a change of business and specializing in auto radio and service."

A larger percentage of the dealers who did reduce prices answered this question, and in all, twenty-eight replies were received which are quoted in full.

> "Special trade-in allowances. Low profit leader items and extensive advertising." (Sales higher in 1953)

> "Newspaper advertising." (Sales higher in 1953)

> "Increased acceptance of T. V. due to operation in our district of 1 more T. V. station and improved reception of 1st station - (Buffalo)." (Sales higher in 1953)

> "Our main business is supplying ranges and refrigerators toapartment houses." (Sales higher in 1953)

> "1. February, 1952. Trade-in allowance offered.
> 2. Relaxation of credit restrictions." (Sales lower in 1953)

> "Better and higher volume of advertising." (Sales higher in 1953)

> "L'abandon des prix contrôlés par le manufacturier." (Sales lower in 1953)

> "L'abandon du contrôle des prix par les manufacturiers." (Sales lower in 1953)

"My volume is approximately the same, but expenses and per cent of profit have decreased."

"Sales are declining for some of the following reasons: Shortage of ready money; Waiting for lower prices - a condition created by price-cutting; Fear of future conditions." (Sales higher in 1953)

"Sales in January were heavier due to sale of previous year models. Sales in May 1952 increased due to lifting of credit restrictions and eliminating manufacturer's list price." (Sales in 1953 approximately the same as in 1952)

"G.E. appliances advertised at slightly above cost draw my customers. They are then pressured into buying some other make. All I have to sell is G.E." (Sales higher in 1953)

"Prevailing price-cutting." (Sales lower in 1953)

"Special prices offered in February 1953 on 1952 models which were purchased from wholesaler at reduced prices. June and July 1953, people vacationing and volume dropped. (Sales higher in 1953)

"Price shopping." (Sales in 1953 approximately the same as in 1952)

"The removal of credit restrictions increased sales during May, 1952." (Sales in 1953 approximately the same as in 1952)

"N.B. 1. Lois de crédit moins sévères. 2. Enlèvement prix de liste." (Sales higher in 1953)

"Excessive trade-ins, small or no down payments and long terms. When prices are cut below manufacturer's suggested list, they state they are helpless to do anything to prevent it." (No data on monthly sales)

"Greater competition." (Sales lower in 1953)

"No deposit and 36 months terms advertised by large departmental stores." (Sales lower in 1953)

"Competition and price-cutting." (Sales in 1953 approximately the same as in 1952)

"Stepped up advertising of sales at discount prices or large trade-in allowances - good service and effective selling technique." (Sales higher in 1953)

"Sales decreased during the months of February and March due to the fact that we were endeavouring to obtain a margin of profit great enough to operate our business properly. In the latter months, we were forced through competitors to decrease our margin of profit to the point where it might be termed a loss." (Sales higher in 1953)

"Too many cut prices - these were forced upon us by advertisers in the appliance business who were taking even shorter mark-ups than we are - and ours are terrible - but, to do any business, we had to follow similar type of pricing." (Not in business in 1952)

"Too many dealers cutting prices and giving away free prizes with each sale has reduced our sales volume to some extent." (No data on sales in 1952)

"Nothing in particular, although a lot was spent on advertising--plus a lot of hard work." (Sales higher in 1953)

"Price-cutting on such items as irons, kettles, polishers, by certain firms (large advertisers in the daily papers) certainly drew customers away. We ran a window display for two weeks as an experiment and at the end of that time were convinced it was useless to do business on that basis." (Sales lower in 1953)

"During February and March of 1952 the manufacturers put on special quantity discounts in order that they would 'dump' stocks which they still had on hand. As a result, we were forced to follow their prices on merchandise we had purchased at higher prices. We sold much of the merchandise in February and March at a loss in order to get our money back on this 'special stock'." (Sales lower in 1953)

M. Reasons for Departing From Suggested Selling Prices

Question 10 asked for the reasons which caused the retailer to depart from the suggested selling prices in the case of the items referred to in his answers to questions 5 and 6. The replies received are reported in detail. It is clear that in the greater number of cases the retailer attributes his price reductions to "competition"; however, the liquidation of excess inventory, the clearance of discontinued models, special manufacturers' promotions, the presence of too many dealers in relation to the volume of business available at suggested prices, all were cited as factors bringing about price reductions.

"To create store traffic."

"White goods were overstocked and sponsored by manufacturer. T. V. due to overstock of obsolete models."

"Competition and foolish terms offered by some so-called dealers. Know of no case where manufacturer sponsored or encouraged reduction."

"1. Suggested by manufacturer.
2. Heavy inventory.
3. Meeting competition."

"To meet competitor's price."

"Compétition trop forte (sans contrôle de prix)."

"Pour rencontrer la compétition des autres marchands."

"Price cutting was introduced in my business in order to meet competition, but due to volume buying I can show a small percentage of profit."

"Competition and price cutting by other dealers."

"No reductions sponsored by manufacturers - reductions were made to meet competition."

"We had to try and meet prices advertised in newspapers. Even if they were gyp ads. and merchandise couldn't be purchased, the customer wouldn't come back to us."

"The overall business in locality is too scarce for too many dealers and price-cutting was inevitable."

"Refrigerators were a discontinued model and manufacturer cleared them at a reduced price. Washing machines were 1952 model cleared by manufacturer discontinuing the line."

"The reason for departing from the list prices was willed on us by retail stores advertising name brand products at ridiculous prices."

"To meet competition and create sales."

"Competitive retail prices and giving away free gifts, such as chrome sets, polishers, etc., with merchandise at manufacturer's suggested prices."

"N. B. La compétition m'a obligé. Aucune réduction du manufacturier."

"Our prices are made to meet those as advertised by our competitors."

No comment was made specifically in answer to question

10 by this dealer. Elsewhere on the questionnaire, however, the following remark appears:

> "These Westinghouse refrigerators were reduced to $299.50 to meet an advertised Department store price."

> "When goods are purchased at a cheaper price, we sell them cheaper. In some instances, they are priced according to what they are worth, and not as the manufacturer suggests. Also, goods are priced to meet competitors' prices."

> "Slow moving and shop worn merchandise."

> "Competition makes it impossible to sell at suggested prices. The manufacturers did not sponsor sales below suggested prices."

> "Price war amongst dealers (retail).

Canadian General Electric refrigerators	Sug. retail
	449 in March
	in Aug/53 sug-retail 389
	in Oct/53 " " 364."

> "To move over-limit inventories."

> "Without price-cutting to meet competition, sales would be non-existent."

> "In March, 1952, Frigidaire started it off to clear their 1951 models on a large trade-in offer. General Electric followed suit and our success with both made us adopt it as a policy which is still effective as long as volume can be maintained."

> "Many of these items were used in advertising as 'loss leaders' by other retail outlets."

> "We were forced by other dealers and manufacturers. Manufacturers trying to take too much mark-up - failing this they would sell the same merchandise on deals at lower prices, with no rebate to dealers. This would cause price-cutting on distress merchandise with low mark-up - no profit."

> "Competition, not sponsored by manufacturer."

> "We have reduced prices in most cases to meet unfair price-cutting."

> "Have found most manufacturers do not recommend price reductions. As long as there isn't a price maintenance 'law' it's inevitable that there will always be price reductions due to each

dealer trying to get more business. In the past a dealer tried to sell quality; now he tries to sell quality and best price."

"Competition of two firms (mainly) who are responsible for the drastic prices now in effect. As far as is known this was not sponsored by any manufacturer."

"All of our special sales were from stock held on inventory; however, we were forced to meet competition which occurred when the manufacturers gave specialsand also lower prices for quantity buying."

N. Considerations Determining What Items Were Sold Below the Suggested Selling Price

Question 11 asked the retailer to specify the considerations that determined which items were sold below the suggested selling price, such as the extent of consumer acceptance enjoyed by the product, the discounts or allowances obtained from suppliers, and so on. The replies, with a few exceptions, tended to deal with general considerations relating to price reductions in the sale of household electric appliances rather than with considerations associated with specific items offered for sale. Hence the replies to question 11 overlap in some measure the replies to question 10. The considerations that were repeated most frequently ("competition" and "advertising") and which in the main related to question 10 have been omitted in the following summary.

One reply was received from a dealer who did not reduce prices below the suggested level and may be considered as the comment of an informed observer rather than that of a participant. This comment was as follows:

"Possibly over-stock, over-production, newer models. Our store did not indulge in these practices."

The replies from dealers who sold items below the suggested price do not establish any one factor or even a few factors as being of dominant importance; however, special discounts offered by manufacturers, excess inventory, clearance of out-of-season merchandise and discontinued models are apparently among the more important factors in determining what items were so sold.

"In some cases, clear out prices of older models. In others, because of special buys of slow-moving items from manufacturer."

"Again foolish practice, believe that if list prices could be insisted on there would be lots for everybody. Fear is also a cause. (Bankruptcies are fairly common)."

"Adverse weather conditions reduced sale of refrigerators and we had to force the sale of refrigerators because of -
(1) Heavy inventory (2) Bills had to be paid.
These factors forced us to reduce our prices."

"Les fournisseurs généralement n'accordent aucun escompte spécial et ce sont les marchands au detail qui subissent la perte. La meilleure amélioration serait donnée aux marchands en rétablissant le contrôle des prix par les manufacturiers jusqu'à un certain degré."

"The general public seem to be more price conscious than any other season, but a percentage can be sold by pointing out competitors inferior merchandise. Summary PRICE CONTROLS SHOULD BE REIMPOSED."

"Superabundance of dealer outlets - Competition by other retailers cutting prices - Lack of authority by wholesalers to enforce suggested list prices."

"Most of our sales are washers. These are sold at regular suggested list prices due to number of trade-ins with a few exceptions. Refrigerators are sold at less than suggested list prices due to few trade-ins and to meet competition."

"Electrical appliances have always been sold at a discount from list. We have always done it ourselves. It's the uncontrollable 'come on' advertising that's killing the smaller dealers. We haven't shown a profit for two years."

"We obtain special discounts on volume purchases and find that consumers respond to 'specials'. Furthermore, we find that we can operate profitably by maintaining a profit of 20% of the selling price, because of our relatively lower cost of operation, being located on a side street."

"To meet competition, special quantity discounts and out-of-season merchandise, also to clear old models for new models."

"N. B. L'enlèvement des prix de liste a aidé considérablement la vente."

"Consumer acceptance is a definite factor in pricing goods. Also, competitive lines at lower prices. Also, new models. Customer definitely gets the benefit of lower prices since enforcement of selling prices was discontinued."

"Supplier's discounts and overstocked items."

"If you buy right you can sell right. Some stores advertise a highly acceptable product at a very low price and use their

salesmanship to sell the created traffic another money-making line. This cuts down the acceptability of the product to other dealers and makes the distributor helpless. My chief gripe is the way a dealer can massacre a famous name product - so much so that no other dealer will stock it - to overcome this, give the manufacturer some authority over the way his product can be advertised - but not at what price it can be sold in a store."

"This situation would be straightened out considerably if manufacturers had only one or two wholesale selling prices instead of six on the same merchandise and would allow no one to sell at lower than a fixed price - if dealers did not conform with this to discontinue selling them merchandise. (This should be a fair margin of profit). This situation has gone far beyond loss leader selling. There is misrepresentation by advertisers, far too many gimmicks employed. As a result, a customer, when he buys, has no idea whether he is getting a good buy or a poor one. Instead of having the arrangement left wide open like race betting, there should be some means of control starting basically with the manufacturer. I believe that is where the basic problem lies."

"Consumer acceptance enjoyed by the product."

"I believe some manufacturers, when overstocked on a particular item, do give special prices on said items without reducing the suggested list price; and, in some cases, dealers give extra large trade-in allowances when selling these items, or reduce the selling price accordingly."

"The consumer always benefits when he or she is free to bargain for an item. An established trade-name is bound to sell faster, particularly if the list price is not maintained."

"It appears to be a deliberate attempt on the parts of two or three dealers to discredit the suggested list price and embarrass other dealers. Enclosed newspaper ads will cover the items mentioned. Our experience has been that when we normally stocked 15 to 20 irons, kettles, etc., we now stock one or two and are not too anxious to sell them to our customers for the ill will it would cause if they were to see the price-cut ads. The items in the attached handbills (especially relating to G. E. Irons, Toasters, Kettles and Floor Polishers) are good selling items, much in demand, and therefore it is absolutely not necessary to cut prices to sell them."

"The main cause for low priced sales in my opinion was the special campaigns and special prices offered by the manufacturers. Special discounts were offered by them to us as dealers. We in turn passed this saving on to the ultimate purchaser."

O. Quotations Relating to Price Reductions on Household Electric Appliances from Letters to the Director

In addition to the replies received to questions 8, 10 and 11 in the questionnaire, a number of dealers in electric appliances set out their views on conditions in this field in greater detail in accompanying letters.

Extracts have been taken from a few of these letters with a view to providing a cross-section of the opinions expressed.

> "With reference to 'Loss Leader' selling I doubt many companies would resort to that type of unethical merchandising, firstly, it's not right, secondly, the writer has 25 years of specialized experience in the merchandising of appliances and still can't see where that policy would pay for some of the following reasons: I am a small independent specialist handling some 25 or 40 different major appliances that are well known to the general public. If I or any other firm attempted to use a major appliance as a 'Loss Leader' it wouldn't pay as the buying public would invariably insist on buying that 'leader' as advertised. If the dealer didn't make delivery 'as advertised' then he would be guilty of false advertising, if he did make delivery and at a loss he wouldn't be in business for long. I can readily see where a large organization handling thousands of consumer lines, could if they were so inclined utilize the Loss Leader method, particularly in foodstuffs. For instance, they could advertise 5 lbs of beef at or below their wholesale cost on the assumption that the public will buy other non-advertised items at regular or inflated prices once they are in that store. It is in the field of advertising that abuses sometimes occur."

* * *

> "For a company that likes competition, there is little wrong with outlawing price fixing by the manufacturer, provided <u>some protection is given to the manufacturer.</u>
>
> Let me illustrate. I was contemplating the placing of a large order for . . . refrigerators. In tonight's paper, I see where the price of . . . Refrigerators has been slashed to the point where it is no longer profitable to sell them, by one dealer. Consequently there will be no order from me for . . . refrigerators for a considerable time, and no doubt other dealers' reactions will be the same. Now bear in mind that . . . have spent years developing a quality refrigerator, have spent millions in advertising it and promoting it, and yet here we have one dealer (with probably a total investment in about two . . . refrigerators) at his whim, completely wiping out the market in an entire area for a company with investments running into the millions. Ridiculous - don't you agree.
>
> <u>RECOMMENDATION:</u> That price fixing legislation be

continued as is, with but one reservation namely, when a dealer uses a trade name of any product or illustration of the product in any advertising, that the owner or distributor of the product advertised or illustrated, may insist that he does not quote a price, or that if he does quote a price, then it is the suggested list price of the manufacturer unless otherwise exempted by the manufacturer.

At first glance, this recommendation may seem to defeat the purpose of the legislation, but it does no such thing. The dealer can still sell the product at any price he desires which is permitted by law. He can still advertise the product at a cut price by description, but NOT by tradename or exact illustration. It gives him lots of leaway to promote his business, promote competition, but at the same time, it protects the manufacturer - who is entitled to protection of his heavy investment. Under this system, the manufacturer's product will still be acceptable to other dealers."

* * *

"Although we do advertise merchandise from time to time at a reduced price, it is invariably items that we have purchased from the manufacturer at a close-out price and we pass the savings on to the public.

The only time we would ever sell merchandise at less than cost, would be in the event of serious damage to the item or something that was practically unsaleable at regular prices and had been in stock for a long time."

* * *

"We realize the government policy is to reduce costs to consumers, which is also the aim of good merchandisers. We don't think that it was the intention to make an industry a loss leader. Our idea of a loss leader is one which is sold at a figure below the cost of doing business, and not the invoiced cost. When one department of an organization operates at a loss a profit must be made in other sections. However, when you are in one business exclusively, you have no other departments to share the loss or make up for it.

Fair factory list prices that can be maintained are the only solution, with possibly a maximum mark-up allowed to avoid two things: firstly, too long a profit which penalizes the public, and secondly, excessive profit which allows fictitious trade-ins and so-called give-aways.

We were approached last week by a manufacturer's representative suggesting a list price on a TV set be such that it would allow a trade-in allowance for junk of $80.00. This condition existed for some time. The practice started probably 20 years ago, but at that time was used at the end of a season to clean up stock, and was of limited duration. The practice of pricing a new model to do this does not seem right.

We are opposed to government controls and regulations, but some standard of honesty and ethics should be maintained. We feel that this should be done by the trade, both at retail and at factory level. The public are so confused now over claims and counter-claims that they believe we are all liars, and it's hard to blame them."

* * *

"We feel that the price war that has been going on amongst many dealers, both in large and small cities is to me a bit of indiscretion in selling.

We have tried to maintain our prices and, of course, we have made concessions to our old customers, who have always dealt with us without anywhere near prices that are advertised.

It seems to me that some people in the appliance business have no right to be there, for it was admittedly easy selling until this year, it is a matter of straight business and with increased costs of doing business it is a year of hard work and salesmanship, for anyone can give things away.

I believe some of the manufacturers are to blame for they over-produced in a declining market and I do not think the demand is there. My firm belief is that the manufacturers will have to do something about this themselves for it is going to drive dealers such as myself to bankruptcy, if we cannot sell goods at a proper price and give our customers good service unless a proper price is maintained."

* * *

"We return herewith your Questionnaire in connection with the sale of electric appliances. We have not completed this form, as we have almost eliminated appliances from our inventories, since the lifting of price maintenance.

The reason for our action has been the irresponsible merchandising by mushroom operators, who have small regard for customer goodwill or service. The present chaos is so great that the public is completely confused. A responsible dealer must have sufficient mark-up in order to give his customer the service to which he is entitled. The prices, for which this merchandise is being sold today, allow nothing for the dealer, and the manufacturer is the only one who is getting any profit.

As long as the present method of merchandising exists, the appliance industry will be upset. We, therefore, intend to refrain from handling these goods until some semblance of order is restored."

* * *

"With regards to your paragraph re 'specials' we find it an inducement to better sales volume."

* * *

"We have been unable to provide you with much information regarding the enclosed questionnaire since during June and July, to the best of our knowledge, we did not sell any electrical appliances that fall into the categories listed.

However, from time to time we do sell merchandise that does come under this department. When we sell nationally advertised household electrical appliances at prices below manufacturer's suggested list, it is always done with their knowledge and approval.

The manufacturer's approval is directly related to business conditions at that specific time. When merchandise is sold at these special prices it is always because we have been granted a special purchase cost price. We find that it is impossible to operate profitably unless there is at least a 33 1/3% margin of profit. We arrive at our special retail price by adding 50% to the cost, which gives us the necessary 33 1/3%.

The only exception to this rule as regards our appliance department would be when we carry over a heavy inventory of a discontinued design. Appliances have become a style item, and due to the tremendous advertising budget which the manufacturers spend this merchandise can become obsolete almost over-night. At that time we place a new value on this merchandise in relationship to the replacement model."

* * *

"I have filled in your questionnaire to the best of my ability and would assure you that while we do <u>not</u> cut prices we are experiencing considerable difficulty in selling, owing to city stores in Toronto and Hamilton selling far below the usual list price and we feel that it was a great error on the part of our Government when they discontinued having the manufacturer set a fair retail price which operated across Canada.

I understand there has been quite a mortality in the electrical appliance business and I am sure this has been caused by cut-throat selling and the offering of specials such as an old broom or a cup and saucer for $100.00 allowance on legitimate merchandise."

* * *

"We are a small store, and have considered your request for approximate data on price cutting.

We would be very glad to furnish you with this data, but we feel that the retail end is not necessarily the source of your problem.

We feel the source is at the Manufacturer. They feel justified in giving us 25% or 28 1/2% discounts. Then turn around and give large stores 40% & 45% discounts. Just

imagine how ridiculous it is when these people can take a 349.00 . . . Washing Machine, retail it at $199.50 and still make a good profit.

I have friends who have closed up appliance stores because the large stores can sell at retail and still make a good profit, for the same price that the small dealer pays wholesale for his unit."

* * *

"In reply to your letter of . . . would say that we did not run any 'Special promotions' on Electrical Appliances although quite a number of Dealers in this locality did run specials and are still doing so.

We tried to merchandise in the normal manner, and our volume suffered considerably on account of competition from these continual 'Specials' linked with 'no down payment' and offers of premiums.

We have found that special offers at reduced prices and reduced terms force other lines of similar and allied merchandise into distress positions, and cause further special offers of distressed merchandise.

It is an evil that feeds on itself, and under present and recent situations of surplus merchandise and lagging sales with no control over prices or terms it is a very unfortunate situation and one that can well lead to further difficulties."

* * *

"We have just received, from one of our distributors, a copy of a letter sent to you by Canadian General Electric dated June 3rd., 1953 . . . . This letter asks that General Electric be allowed to cut off their supply to distributors selling to dealers who sell at less than General Electric's suggested list price. This, to our way of thinking, is definitely against all the principles of free enterprise.

. . . , we are selling large quantities of General Electric small appliances at prices less than those suggested by General Electric but still at a small profit. We maintain the profit through high volume, strictly cash sales and by the customer picking up the merchandise at our store, saving delivery costs. For example, we used to sell about six General Electric floor polishers a year at a retail of $64.50. We purchased several hundred last June at a cost of $38.70 and advertised them as a special at $44.95. In one day we sold fifty-seven polishers making a gross profit of $356.25. The newspaper advertisement cost $24.00; our normal sales staff handled the volume and as all sales were cash and carry, we consider that the sale was very profitable to us and many people who previously figured they could not afford the luxury of a floor polisher, were able to get one.

The sales on polishers and other small appliances at lower prices have remained high in volume and we have standing orders with five distributors to ship all they can. Incidentally, we are selling other brand name items at special prices such as Westinghouse irons, toasters, electric mixers, Sunbeam electric mixers and irons. . . .

We employ a staff of over 50 people and rely on large volume to keep this staff steadily employed. Since going into these special low profit items our sales have increased greatly and other regular profit items have also greatly increased in volume."

Note: References have been made in the quotations in this Section to the experience of the United States in the sale of household electric appliances under "fair trade" legislation and to the increase in the number of appliances dealers in Canada. Annexes III and IV to this Section provide some information on these matters.

ANNEX I

DIRECTOR OF INVESTIGATION AND RESEARCH
COMBINES INVESTIGATION ACT
OTTAWA

Room 746, Justice Building,
September 8, 1953.

Dear Sir:

Some months ago the Combines Branch began an inquiry into "loss-leader" selling and invited replies to and comments on a number of questions relating to the frequency of use, the nature and the effects of this practice.

In order to obtain more detailed and precise information about the extent to which "specials" have recently been used in the sale of household electric appliances and the degree of price reductions in this field, it would be very much appreciated if you would provide the information requested on the enclosed questionnaire.

If you would care to add further comments on the function or significance of "specials" in the merchandising of electric appliances, I would be very glad to have them.

It would be of substantial assistance to me if you could send me the requested information at the earliest date possible. I regret having to trouble you but I believe that this additional information would be very useful for the purposes of the inquiry.

A return envelope, which does not require a stamp, is enclosed for your reply.

Yours very truly,

T. D. MacDonald
Director

Encl.

Annex I, Continued

QUESTIONNAIRE ON HOUSEHOLD ELECTRIC APPLIANCE SALES

1. Name of store . . . .

2. Address . . . .

3. Is your store a unit in an incorporated chain? . . . .

   Name of chain . . . .

   Number of units in chain . . . .

4. Volume of total sales for 1952 (approximate) $ . . . .

5. During June and July, 1953, did your store:

   (a) sell any nationally advertised household electric appliances at a price below the manufacturer's suggested price but above net purchase cost?*

   Yes . . . . No . . . .

   (b) If the answer to (a) is "yes", state the number of different items (including different sizes and models of the same item) so sold: . . . .
   . . . .

   (c) List the five items sold at the largest percentage reduction below the manufacturer's suggested price but above the net purchase cost and provide the following information for each item:

Item	Selling Price	Period in Effect	Net Purchase Cost	Suggested Price
1.				
2.				
3.				
4.				
5				

---

* Net purchase cost means billing total of the invoice (including duties, sales, excise and any other taxes applicable) plus transportation and delivery costs less any special discounts or allowances whether shown or not shown on the invoice but before cash discount.

Annex I, Continued

(d) Indicate by an "X" the manner in which the articles mentioned in paragraph (b) above were advertised: newspaper . . . .; handbill . . . .; window announcement . . . .; radio . . . . ; other . . . .

6. During June and July, 1953, did your store:

(a) sell any nationally advertised household electric appliance at or below net purchase cost? Yes . . . . . No . . . . .

(b) If the answer to (a) is "yes", state the number of different items (including different sizes and models of the same item) so sold . . . .

(c) List the five items sold at the largest percentage reduction below net purchase cost and provide the following information for each item:

Item	Selling Price	Period in Effect	Net Purchase Cost	Suggested Price
1.				
2.				
3.				
4.				
5.				

(d) Indicate by an "X" the manner in which the articles mentioned in paragraph (b) above were advertised: newspaper . . . . ; handbill . . . . ; window announcement . . . . ; radio . . . . ; other . . . .

7. List your total monthly sales volume for the following months:

Month	1952	1953
January	$	$
February	$	$
March	$	$
April	$	$
May	$	$
June	$	$

July	$	$

8. Indicate any special factors which you believe affected your sales volume during the above periods.

9. State the approximate dates when price reductions of the nature described in questions 5 and 6 began . . . . and ceased . . . .
(date) (date)

10. What were the reasons for departing from the suggested selling prices in the case of the items referred to in your answers to questions 5 and 6? Please specify and indicate any case in which the reduction was sponsored by the manufacturer.

11. Are there any general considerations that determine what items are (were) sold below the suggested selling price, such as the extent of consumer acceptance enjoyed by the product, the discounts or allowances obtained from suppliers, and so on? Please specify.

ANNEX II

PRODUCTION, SHIPMENTS, STOCKS, IMPORTS AND EXPORTS OF

MAJOR HOUSEHOLD ELECTRIC APPLIANCES

Annex II, Continued

Electric Refrigerators

Monthly Averages or Calendar Months

		Domestic Types			All Types	
		Production	Shipments	Factory stocks end of period	Imports	Exports
		(Thousands)				
1939		4.29	-	-	1.11	0.78
1940		4.43	-	-	1.75	0.13
1941		5.34	-	-	0.23	0.19
1942		3.15	-	-	0.01	0.06
1943		0.03	-	-	0.01	0.01
1944		0.02	-	-	-	-
1945		0.20	-	-	0.04	-
1946		4.79	4.78	0.63	0.92	0.06
1947		8.12	8.05	1.89	3.45	0.44
1948		11.57	11.60	1.63	0.09	1.38
1949		14.82	14.70	3.17	0.05	1.07
1950		28.88	28.86	3.01	0.92	0.20
1951	J	34.69	33.19	4.35	8.82	0.17
	F	31.45	31.25	4.54	9.06	0.08
	M	35.40	33.60	6.34	10.02	0.18
	A	34.22	33.68	6.88	16.65	0.13
	M	32.95	30.13	9.70	18.60	0.68
	J	26.93	19.58	17.04	15.06	0.61
	J	16.55	10.74	22.85	11.43	0.43
	A	17.32	9.93	30.25	9.27	0.37
	S	14.26	8.61	35.89	3.61	0.22
	O	13.44	7.46	41.87	4.11	0.03
	N	12.82	9.46	45.22	2.07	0.05
	D	6.60	6.62	45.21	0.92	0.30
1952	J	8.34	9.06	46.05	1.10	0.08
	F	8.49	18.06	36.49	4.37	0.11
	M	12.46	19.66	29.29	6.54	-
	A	13.72	23.21	19.80	10.76	0.02
	M	22.45	25.75	16.50	27.34	0.08
	J	23.39	27.72	12.17	38.08	0.23
	J	21.78	26.17	7.78	33.28	0.27
	A	23.90	22.76	8.92	18.25	0.24
	S	29.15	26.35	11.72	19.20	0.53
	O	27.79	19.90	18.07	16.02	0.02
	N	22.97	12.52	28.52	14.62	0.04
	D	22.43	14.97	35.99	12.96	0.07
1953	J	20.89	19.21	37.67	12.57	0.11
	F	22.86	25.63	34.90	14.21	0.46
	M	24.64	25.36	34.18	21.14	0.56

Annex II, Continued

Electric Refrigerators, Continued

1953	A	23.66	29.16	28.67	36.20	0.08
	M	29.74	33.82	24.59	37.07	0.22
	J	35.25	37.53	22.31	28.63	-
	J	28.34	27.04	23.60	21.60	0.02
	A	18.15	14.84	26.92	15.55	0.02
	S	25.81	19.99	32.73	-	0.02

Notes: 1. As of May, 1949, Newfoundland is included in all figures.

2. Gas types are included under "Domestic Shipments" as of January, 1952.

Above data are taken from tables published in the Canadian Statistical Review (DBS).

Annex II, Continued

Radio Receiving Sets

Monthly Averages or Calendar Months

		Estimated Production	Domestic Shipments	Factory stocks end of period	Imports	Exports
			(T h o u	s a n d s)		
1939		29.0	30.9	60.9	4.9	0.1
1940		40.4	36.6	97.4	2.0	0.1
1941		32.2	33.3	50.1	0.3	0.6
1942		14.8	17.4	13.7	0.2	0.2
1943		0.1	1.9	0.7	0.3	-
1944		-	0.1	0.1	0.2	-
1945		4.2	3.7	6.3	0.1	-
1946		50.3	47.4	16.6	3.5	1.2
1947		82.0	69.7	108.2	9.3	4.4
1948		53.3	49.5	104.5	0.2	2.3
1949		66.7	60.7	109.6	4.5	2.8
1950		68.4	63.2	145.2	3.9	3.1
1951	J	64.9	50.7	158.5	3.4	2.4
	F	69.3	56.8	168.5	2.0	1.5
	M	48.9	66.0	145.9	5.4	2.8
	A	72.4	57.5	158.6	4.4	2.5
	M	68.1	38.8	184.7	3.3	1.4
	J	66.4	32.9	217.3	3.8	2.4
	J	36.2	28.8	223.1	5.0	1.6
	A	42.1	36.3	222.3	8.4	2.4
	S	51.4	42.4	221.3	6.4	8.8
	O	36.0	45.5	206.9	5.7	4.3
	N	76.8	59.1	218.2	4.4	3.9
	D	30.3	59.3	185.0	3.7	1.5
1952	J	33.3	29.7	186.7	2.9	2.5
	F	25.2	34.7	176.6	2.2	1.5
	M	26.1*	31.5	161.1	3.4	2.8
	A	28.7	38.8	148.6	6.5	2.5
	M	35.2	44.5	136.1	7.2	3.4
	J	35.7	39.3	131.7	5.4	5.6
	J	39.3	38.0	130.6	9.5	1.8
	A	42.0*	41.3	123.8	10.5	0.4
	S	44.8	57.7	105.7	10.0	2.5
	O	53.1	61.3	94.8	8.6	5.1
	N	65.5*	73.2	76.0	8.5	3.7
	D	56.5	78.9	52.0	7.9	2.5
1953	J	50.4*	37.5	68.7	6.6	2.6
	F	45.8	47.9	69.2	5.8	2.4

Annex II, Continued

Radio Receiving Sets, Continued

1953 M	61.7	57.8	71.5	6.1	2.1
A	66.2	60.1	79.6	8.5	2.9
M	63.4	50.5	92.9	6.8	1.4
J	65.5	47.8	110.6	2.7	1.0
J	43.1	36.7	117.1	3.5	1.7
A	-	-	-	2.0	0.6

Notes: 1. April, 1951, edition of Canadian Statistical Review states column for imports includes T. V. sets. The date on which T. V. sets were first included in the figures given is not, however, stated.

2. * Adjusted.

Above data are taken from tables published in the Canadian Statistical Review (DBS).

Annex II, Continued

Television Receiving Sets

Monthly Averages or Calendar Months

		Estimated Production	Domestic Shipments	Factory stocks end or period	Imports	Exports
		(Thousands)				
1949	S	-	0.7	1.9	See data covering radios	
	O	0.6	0.9	1.7		
	N	1.3	1.6	1.3		
	D	0.6	1.0	1.0		
1950	J	1.1	0.5	1.6		
	F	1.1	1.1	1.7		
	M	0.7	0.9	1.5		
	A	1.2	1.1	1.5		
	M	0.8	0.7	1.6		
	J	3.0	1.0	3.6		
	J	1.5	1.8	3.3		
	A	2.3	2.0	3.6		
	S	2.8	3.9	2.4		
	O	3.8	4.3	1.9		
	N	6.0	4.9	3.1		
	D	5.2	5.5	2.7		
1951	J	4.0	3.8	2.9		
	F	4.3	4.5	2.7		
	M	5.8	5.4	3.1		
	A	5.0	4.4	3.6		
	M	5.7	1.1	8.2		
	J	3.5	0.5	11.3		
	J	3.1	0.3	14.1		
	A	2.3	0.9	15.5		
	S	5.3	3.1	17.7		
	O	4.0	4.9	16.8		
	N	5.5	5.6	16.6		
	D	2.7	4.6	14.7		
1952	J	3.7	4.6	13.8		
	F	2.5	3.9	12.4		
	M	5.1	4.1	13.4		
	A	4.6	4.0	14.0		
	M	8.3	5.9	16.4		
	J	5.2	4.8	16.8		
	J	5.4	6.3	15.8		
	A	8.5	11.5	12.8		
	S	11.5	17.5	6.8		
	O	22.1	23.0	6.0		
	N	22.9	24.6	4.3		
	D	25.7	27.0	3.0		

Annex II, Continued

Television Receiving Sets, Continued

1953	J	25.8	23.5	8.6		
	F	27.8	26.0	9.9		
	M	32.2	26.6	15.8		
	A	31.4	19.9	27.3		
	M	26.4	19.2	35.7		
	J	28.8	10.8	53.6		
	J	16.7	9.3	61.0		

Above data are taken from tables published in the Canadian Statistical Review (DBS)

Annex II, Continued

Domestic Washing Machines

Electric and Other

Monthly Averages or Calendar Months

		Production	Shipments	Factory stocks end of period	Imports	Exports
		(Thousands)				
1939		8.66	-	-	1.71	1.68
1940		9.79	-	-	1.42	0.29
1941		10.69	-	-	0.28	0.07
1942		5.60	-	-	0.08	-
1943		1.10	-	-	-	-
1944		2.94	-	-	-	0.01
1945		4.40	-	-	0.05	0.23
1946		9.59	9.94	0.71	1.23	0.62
1947		18.23	18.18	1.27	5.60	1.39
1948		26.91	26.76	3.05	0.13	1.15
1949		29.24	28.57	16.07	0.02	0.97
1950		23.46	23.93	10.41	0.15	1.05
1951	J	30.71	29.75	11.36	0.68	0.50
	F	27.02	25.56	12.82	0.45	1.17
	M	29.90	29.53	13.20	0.60	1.12
	A	29.94	28.30	14.84	0.23	1.93
	M	27.24	22.01	20.07	0.49	1.74
	J	19.22	14.52	24.77	0.37	2.67
	J	13.32	11.86	26.22	0.23	1.59
	A	13.31	9.86	29.67	0.15	2.38
	S	12.25	10.59	31.34	0.27	2.21
	O	13.12	14.26	30.19	0.44	1.08
	N	12.23	12.86	29.56	0.18	1.27
	D	11.91	11.54	29.93	0.23	2.16
1952	J	12.43	12.07	30.29	0.33	0.22
	F	12.91	16.42	26.78	0.25	1.51
	M	13.26	15.97	23.53	0.63	1.09
	A	17.52	19.04	22.01	0.52	0.75
	M	20.60	23.97	18.64	0.96	0.99
	J	22.64	22.52	18.77	1.19	1.30
	J	19.72	20.02	18.47	1.13	0.89
	A	21.07	23.01	16.53	1.07	1.05
	S	31.07	29.19	18.41	1.41	0.59
	O	26.33	26.08	13.64	2.09	0.78
	N	26.58	24.76	15.46	1.75	1.20
	D	24.38	21.36	18.25	2.06	0.49

Annex II, Continued

Domestic Washing Machines, Electric and Other, Continued

1953 J	21.53	16.58	23.20	2.02	0.48
F	21.30	21.22	23.28	3.42	0.45
M	22.82	23.20	22.91	1.96	0.46
A	24.80	22.45	25.26	2.31	0.39
M	21.49	22.91	24.28	4.19	0.78
J	22.42	20.18	26.07	2.75	0.55
J	18.43	16.28	28.22	1.65	0.59
A	20.44	18.59	30.06	1.99	0.31
S	20.59	24.79	25.86	-	0.48

Notes: 1. Electric and other type washing machines included in all figures.

2. Above figures for production, shipments and factory stocks do not include apartment-type machines.

Above data are taken from tables published in the Canadian Statistical Review (DBS)

ANNEX III

The following quotation from an article entitled "Fair Trade Pricing: A Reappraisal" by E. Raymond Corey in the Harvard Business Review, September-October, 1952, deals with certain aspects of "loss-leader" selling in household electric appliances in the United States. Mr. Corey is Assistant Professor of Business Administration at the Harvard Business School.

> "In the marketing of small appliances, resale price maintenance has typically been used by the manufacturer to obtain intensive distribution, i.e., to sell his products in as many suitable retail outlets in an area as possible. Starting with the premise (perhaps too readily taken for granted) that small appliances are bought to a large extent on an impulse basis by the customer and that such purchases are not 'planned' (as the purchase of an automobile, for example, would be planned), the manufacturer reasons that he can maximize his sales by having his products widely available to the consumer at standard prices. . . .
>
> It is interesting to note, in contrast, that major appliances such as refrigerators, washing machines, and electric ranges have generally not been fair-traded, although retail prices usually are suggested to dealers. In marketing these larger, more expensive units the manufacturer bases his strategy primarily on the fact that for the customer a major appliance is typically a planned purchase. . . . Therefore intensive distribution, although it might be desirable if it were practical, is not so important here as in marketing small appliances. . . ."
>
> (p. 51)
>
> "In addition, there is the fact that the trade-in allowances which are usually involved cannot be controlled and hence would make it difficult to enforce a fair trade price structure."
>
> (p. 52)
>
> "Conclusion
>
> What significance, it may be asked in summary, does the foregoing discussion of the issues involved in the fair trade controversy have in view of the passage of new and strengthened legislation?
>
> Effect of New Legislation. While the enactment of the McGuire bill may seem to have laid the matter to rest, it simply marks the beginning of the problem which the manufacturer faces in taking the law into account in his own distribution

program. With the uncertainty which followed in the wake of the Schwegmann decision now removed, he may take a long look at the experience of recent years and chart his own course accordingly.

A thoughtful appraisal of both the difficulties and the benefits of resale price maintenance for the manufacturer goes far toward scaling down the importance of this legislation as a device for preserving orderly market conditions and maximizing sales volume. Fair trade pricing, it is abundantly clear, will not provide a complete answer to price cutting, on the one hand, or to the need for preserving a dynamic selling organization, on the other.

Marketing Considerations. The basic decision on the part of a manufacturer to adopt fair trade as one element of a marketing program must inevitably be made with an awareness of both the advantages and disadvantages of having a fixed price. In the merchandising of small household appliances the fixed price has reputedly served three functions, overlapping to some extent but clearly identifiable nevertheless. These are (1) the prevention of damage to the market for a product that may result from having the product widely advertised as a loss-leader, (2) the association of a recognized price with a product, both to serve as a measure of value in gift purchasing and to stimulate impulse buying, and (3) the prevention of dealer-generated price warfare in a system of intensive distribution.

The relative importance of these considerations may differ from company to company. Hence, it would be inappropriate to attempt to evaluate the usefulness of a fixed price except within the context of the particular market situation in which each individual firm finds itself. The discussion which follows, therefore, poses a few of the questions which company executives must necessarily answer for themselves.

How serious is the threat which loss-leading holds for the manufacturer? It is indeed possible that the threat has been exaggerated. The New York price war of June-July 1951, often held up as an illustration of the dangers of loss-leading, may illustrate more adequately its unprofitability. The price war was the result of a unique combination of circumstances and objectives, and can hardly serve as proof positive of a normal tendency to loss-lead household appliances. Furthermore, the loss-leading which might conceivably result in the absence of fair trade pricing may be no more disruptive than the widespread undercover price cutting which may occur with resale price maintenance in effect.

Annex III, Continued

How important is the impulse buying factor in the market for a particular product, and accordingly how desirable is it to have a fixed price associated with the product? It can be stated, in brief comment, that impulse buying in the immediate post-war period may easily have been related in part to shortages of consumer goods. The more recent abundance of goods has probably increased the consumer's tendency to price-shop and reduced his inclination to buy on impulse. Certainly the development of the discount house would be evidence in this direction.

Is the inflexibility of a fixed retail price a handicap in the face of increasing price competition? The manufacturer who attempts to meet competition with a single nationwide price fails, perhaps, to recognize the difference which may exist among market areas. To a large extent this competition can be dealt with most practically at the local level. If the fixed price on a nationally branded product prevents dealers and distributors from meeting competition, then the logical answer, at least for the larger stores, is the introduction of a greater number of private-brand items at competitive prices.

In this connection, the plan developed by the Proctor Electric Company following the Schwegmann decision -- whereby suggested prices are varied according to local market conditions -- is of particular interest because it represents basically an attempt to meet rather than remain apart from price competition.

Over-All Marketing Program. Whether fair trade is adopted or not in any particular instance, the over-all marketing program of which it is an element, is the most important matter to consider. Thus, the manufacturer advisedly may raise a question as to whether the adoption of resale price maintenance should be coupled with an effort to intensify retail distribution. The combination of a fixed price, wide national advertising, and intensive distribution provides the basic ingredients for price cutting. The one big lesson that might be drawn from our experience prior to the Schwegmann decision is that, even with the fair trade laws in full effect, sub-rosa price cutting becomes more prevalent as supplies increase and demand becomes satisfied.

While vigorous policing by company executives may prevent the advertising of fair-traded merchandise at less than fixed prices, it is difficult to see how policing can be so effective as to prevent the consummation of illegal sales. And to the extent that sales below fair trade prices flourish, dissatisfaction is generated among those dealers who maintain resale prices.

Annex III, Continued

Less intensive distribution, particularly at the wholesale level, might help to ease this problem. Under a marketing system in which one wholesaler does not have to compete with many others for the retail accounts in an area, he has both the incentive and the ability to preserve an orderly market for the manufacturer's products. His efforts to maximize sales volume may include, on the one hand, the selection of strong retail outlets and, on the other hand, the rejection of the accounts of those dealers who may conceivably spoil his market by selling at drastically cut prices.

The exercise of selectivity in building retail and wholesale sales organizations sacrifices in some degree the primary benefit of intensive distribution, consumer exposure to the product. But perhaps that is not so important as having the active support of reputable dealers and distributors.

In conclusion, suffice it to say that the opportunities and the incentives are perhaps greater now than before for manufacturers to re-examine marketing methods and to devise new, more efficient, and perhaps less expensive programs for bringing a multitude of products to the customer. Passage of the McGuire bill -- the new 'Fair Trade' act -- squarely poses the question, rather than providing the answer."

(pp. 61, 62)

ANNEX IV

Data on the number of retail stores selling household electric appliances in 1941 and 1951 are included in the following table. The data for the various classifications of appliance stores are not strictly comparable in the two years. In 1941, a retailer was classed as a "furniture store", "household appliance store", and so on,* depending upon what category of goods accounted for more than 50 per cent of his sales. In other words, the classification was made generally on a majority of sales basis.

In 1951, for a retailer to be classified as a "furniture store" his furniture sales had to account for 66 2/3 per cent of his total sales. Similarly, to be classified as a "household appliance store" sales of household appliances had to account for 66 2/3 per cent of total sales, and similarly for radio stores. The remaining group of retailers having less than 66 2/3 per cent of their sales in any of these three categories were brought together in a new classification, "furniture, radio and appliance stores".

1951			1941		
Kind of business	No. of stores	Sales	Kind of business	No. of stores	Sales
		(000) $			(000) $
Furniture stores	1,583	136,725.8	Furniture stores	1,118	59,301
Household appliance stores	1,797	131,234.3	Household appliance stores	854	23,760
Furniture, radio and appliance stores	358	52,340.6	Household appliance stores with radios	370	15,534
Radio Stores	538	17,352.0	Radio Specialty stores	342	2,759
Radio, piano and music stores	96	9,311.0	Radio and music stores	58	3,414
	4,372	346,963.7		2,742	104,768

(Ninth Census of Canada, 1951, "Distribution", Bulletin: 7-2)

(Census of Canada, 1941, "Merchandising and Services", Vol. X, Part 1, p. 262)

In addition to the above groups of retailers, many department stores and some hardware stores also sell household electric appliances at retail.

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* The classification "household appliance stores with radios" was defined in the census as follows: ". . . stores combining the sale of radios with household appliances and in which the smaller of the two components amounted to 20 per cent or more of the sum of the two."

X. SURVEY OF PRICE REDUCTIONS IN CIGARETTES*

A. The Manufacture and Distribution of Cigarettes in Canada

The expression "standard brand cigarettes", as used in this Section, includes the following plain end cigarettes made in Canada:

1. Sweet Caporal
2. Players "Mild" and "Medium"
3. Winchester
4. Millbank
5. Guinea Gold
6. Export
7. British Consols
8. Buckingham
9. Phillip Morris "Navy Cut" and "English Blend"
10. Herbert Tareyton
11. Kool
12. Wings
13. Black Cat
14. Spud
15. Turf
16. Sportsman
17. Grads

The prices mentioned in this Section are applicable, unless it is otherwise indicated, to standard brand cigarettes in thousands or packages of twenty.

Sales of standard brand cigarettes are said by members of the trade to account for all but a very small percentage of all cigarettes sold legitimately in Canada and approximately 77 per cent of standard brand cigarettes are packaged in 20's. By reason of the predominance of standard brand cigarettes in packages of 20's, the trade in such cigarettes itself raises the issues referred to in this Section and at the same time the trade in standard brand cigarettes in packages of 20's is representative in all relevant respects of the cigarette trade generally.

Standard brand cigarettes are manufactured as follows:

1. Sweet Caporal, Players "Mild" and "Medium", Winchester, Millbank and Guinea Gold cigarettes are manufactured by Imperial Tobacco Company of Canada, Limited, Montreal, Quebec.

* This Section is to be regarded as speaking as of September, 1953.

2. Export and British Consols cigarettes are manufactured by W. C. Macdonald Inc., Montreal, Quebec.

3. Buckingham, Phillip Morris "Navy Cut" and "English Blend", Herbert Tareyton, Kool and Wings cigarettes are manufactured by the Tuckett Tobacco Company Ltd., Hamilton, Ontario, which is controlled by the Imperial Tobacco Company of Canada, Limited, Montreal, Quebec.

4. Black Cat, Spud, Turf and Sportsman cigarettes are manufactured by the Rock City Tobacco Company Ltd., Quebec, P. Q.

5. Grads cigarettes are manufactured by B. Houde & Grothé Ltd., Quebec, P. Q., which is controlled by Imperial Tobacco Company of Canada, Limited, Montreal, P. Q.

The duties upon cigarettes imported into Canada are shown under Tariff Item 142a as follows:

> "Cigarettes, the weight of the paper covering to be included in the weight for duty per pound, under British Preferential Tariff, $2.00 and 15%; under the Most-Favoured-Nation Tariff, $2.00 and 15%; and under the General Tariff, $4.10 and 25%; and in addition thereto, when weighing not more than 3 pounds per 1000, under all tariffs, $2.00 per 1000."

Imports of cigarettes in 1951, chiefly from the United States, amounted to 514,102 pounds valued at $828,658. In the same period, exports of cigarettes totalled 36,336 thousands valued at $180,380.

(1) <u>Production of Tobacco Products</u>

In 1951 there were 48 establishments engaged in the manufacture of tobacco products, according to the latest report of the Dominion Bureau of Statistics on the Tobacco and Tobacco Products Industries. This compares with 78 establishments in 1946 and 95 establishments in 1936. The number of separate companies in 1951 was, however, less than the number of establishments, since some companies operate more than one plant, and in addition a number of wholly-owned and controlled subsidiaries are included in this list. Of the 48 plants producing tobacco products in 1951, only seven were engaged in the production of cigarettes, and six of these also produced other tobacco products. The establishments vary greatly in size and the ten having a value of production of $1,000,000 and over accounted for more than 98 per cent of the total value of tobacco and tobacco products produced in Canada in 1951.

Cigarettes were the main item of production with an output of 15,816,166 thousands, having a selling value at the factory of

$261,909,840. The total selling value at the factory of all types of tobacco and tobacco products for 1951 was $346,644,633 of which $230,155,822 was accounted for by excise duties and taxes. The output of cigarettes has shown a very sharp increase over the past two decades. In 1929 production of cigarettes in Canada amounted to 4,966,612 thousands, with a selling value at the factory of $49,258,851. By 1939 production had risen to 7,163,433 thousands, with a selling value at the factory of $57,277,062 and by 1949 production had reached 17,053,442 thousands of cigarettes, having a selling value at the factory of $255,713,618. From 1929 to 1950, on the other hand, production of cigars had remained, roughly, stationary in quantity; the production of smoking tobacco on a poundage basis had increased only about 16 per cent; and the production of chewing tobacco had shown a very sharp decline. Over all, the gross output (selling values at factory including excise duties and taxes) rose from $85,145,832 in 1929, to the figure already quoted of $346,644,633 in 1951.

(2) Distribution of Cigarettes

The method of distribution of standard brands of Canadian cigarettes, including the different categories of buyers, is set out in its essentials in the following general outline:

Cigarettes and other tobacco products are distributed, broadly, from manufacturers to wholesalers and jobbers who in turn supply retailers. However, there are a number of special developments of this common chain of distribution which are peculiar to the trade in cigarettes and which contribute to the specific nature of the problems that have been brought to the attention of the Director. For purposes of analysis, the manufacturers' customers may be divided into three categories. The first category, formerly designated as "A" accounts, includes tobacco jobbers who distribute to retail stores, wholesale grocery and drug firms, also distributing to retail stores, and certain chain stores with central warehouses which distribute to their own stores and, in a few cases, to other retailers as well. The second category, formerly designated as "B" accounts, includes retailers who deal in tobacco products at both the retail and the wholesale level, as well as departments of government, transportation companies and similar distributors.

All customers in these two categories buy from the manufacturer at the same price, sometimes described as "the jobber's cost price".

The third category of customer, formerly designated as "C" accounts, comprises certain retailers dealing in tobacco products frequently in conjunction with other products or other lines of business. These accounts purchase their products from the manufacturer at prices above those charged customers in the two categories already discussed. The price at which they buy is described as "the direct retailer's price".

The basis upon which individual distributors are recognized as "C" accounts is apparently not clearly established in the tobacco trade. The following quotation from the report of the Commissioner of an investigation into an alleged combine in the distribution of tobacco products, issued August 31, 1938, relates to the general question of the basis upon which some retailers were granted, and others refused, the direct retailer's price in their purchase of tobacco products:

> "Q. What is the general dividing line between retailers, we will say, who buy from Imperial Tobacco and retailers who buy from jobbers? What volume is necessary for a retailer to buy direct from Imperial? - A. There is no stated volume.
>
> Q. Is there no approximate volume? What general rule or practice do you follow? - A. I think the only way I can answer that is to say that it is an old Spanish custom that has been in the tobacco business ever since I have had anything to do with it. A sales manager or a branch manager gets the idea that he wants to sell a certain retailer who is progressive, has a nice location or a certain volume of business. He recommends to us that he wants to sell him. Sometimes we put him on the list, sometimes we don't.
>
> Q. Why do you put him on - if you do put him on? - A. It is very hard to say why. The system is built up over a period of years and it is a vicious circle. Say one of our competitors might open a retail account and we think that, in order to get in on the ground floor, we might have to sell him - and there you go."

In recent discussions with manufacturers of cigarettes, the suggestion was advanced that the basis for many of these accounts was "lost in antiquity". In another case, the manufacturer has suggested that a given customer category was largely determined by the action of a competitor in admitting distributors to the different buying groups.

Most retailers, of course, purchase their cigarettes from one or another of the distributors in the first two categories described above. There are, therefore, three levels of dealers' prices for cigarettes: The price in effect to tobacco jobbers, wholesale grocery and drug houses, chain stores with central warehouses, and retailers selling cigarettes both at retail and wholesale, frequently referred to as "the jobber's cost price"; the price to retailers that are granted the direct retailer's price; and the price to retailers buying from the primary distributors included within the former "A" and "B" categories to which reference has already been made, and which is designated "the jobber's selling price". In addition to this general chain of distribution, one of the minor companies has one account which is allowed a special end-of-the-year discount in return for which the supplier enjoys sole advertising privileges in the stores of this chain. The same firm permits delayed payment on accounts in areas such as the Gaspe Coast, Saguenay North Shore and the Magdalen Islands, where transportation

and communication difficulties require the building up of supply in the fall for the winter and spring months. In addition, at least one company offers a cash discount of approximately 4/10 of 1 per cent on the total amount of the invoice.

(3) Tobacco Sales as Percentage of Total Sales in Various Divisions of Retail Trade

The relative importance of sales of cigars, cigarettes and tobacco in the sales of various types of retailers is indicated approximately by the percentage which such sales constitute of the total sales of the retail division in question. The following percentages are based on information obtained from the 1941 Census of Merchandising (Vol. X, Table 27).

Confectionery stores	27.8 per cent
Fruit and vegetable stores	1.5 " "
Grocery stores (with meat)	3.2 " "
Grocery stores (without meat)	1.6 " "
Country general stores	4.1 " "
Department stores and mail order houses or offices	0.3 " "
General merchandise and dry goods stores	1.1 " "
Restaurants, cafeterias and eating places	6.8 " "
Eating places with other merchandise	16.7 " "
Drug stores	12.0 " "
Tobacco stores and stands	67.6 " "

It would appear from these data that in 1941, sales of cigars, cigarettes and tobacco in addition to being the mainstay of tobacco stores and stands were of substantial importance to confectionery stores, eating places and drug stores; and that for other categories of retailers such sales constituted a comparatively small proportion of total sales. However, even in the case of retailers whose sales of cigarettes and tobaccos account for a comparatively small proportion of their total sales, the prices of cigarettes and other tobacco products relative to the prices charged by their competitors are claimed to be a matter of substantial importance in determining not only their sales of cigarettes but of other lines of merchandise as well, as will be described below.

It was estimated by one manufacturer that there were currently over 90,000 outlets in Canada, or three out of every five retailers, where tobacco products could be purchased by consumers. This compares with an estimate of 60,000 retail outlets, or two out of every five retailers, in 1938, which was quoted in the Report of an investigation into an alleged combine in the distribution of tobacco products (p. 4).

(4) Tobacco Sales by Type of Wholesaler

The latest information available on the division of cigar, cigarette and tobacco sales among various types of wholesalers is that contained in the Census of Merchandising for 1941 (Vol. XI, Table 19). Based on these data, 94 wholesalers of cigars, cigarettes and tobacco accounted for approximately 50 per cent of total sales, 365 tobacco and confectionery wholesalers accounted for just over 30 per cent of total sales, and 413 grocery (general line) wholesalers accounted for about 13 per cent of total sales. The remainder was divided largely among fruit and vegetable wholesalers and drugs and drug sundry (general line) wholesalers.

(5) Cigarette Prices

The prices in effect to the different categories of customers set out above were, prior to April 9, 1952, as follows:

1.	To customers buying at the "jobber's cost price" -	$17.58 per 1000
2.	To customers qualified to buy at the "direct retailer's price" -	$18.09 per 1000
3.	To retailers buying at the "jobber's selling price" -	$18.80 per 1000

The consumer's buying price, which was a price suggested by the manufacturer, was 42 cents per package of 20, or $21.00 per 1000.

Following the reduction in excise tax of $1.50 per thousand on April 9, 1952, prices for these categories were reduced to the following levels:

1.	Jobber's cost price	$16.08 per 1000
2.	Direct retailer's price	$16.59 per 1000
3.	Jobber's selling price	$17.30 per 1000

The usual consumer buying price was 39 cents per package of 20 cigarettes, or $19.50 per 1000, although some retailers sold cigarettes for a price of 36 cents per package, or $18.00 per 1000.

When the excise duty was reduced on February 20, 1953, ($2.00 per thousand), and was supplemented by a price reduction by the manufacturer (60 cents per thousand) the "jobber's cost price" declined about February 23, 1953, to $13.48 per 1000, the "direct retailer's price" to $14.00 per 1000, and the maximum "jobber's selling

price" was fixed by some manufacturers at $14.55 per 1000. The suggested retail price was 33 cents per package of 20 cigarettes, or $16.50 per 1000.

In terms of a package of 20 cigarettes the "regular" prices to different categories of buyers are set out in the following table:

To Purchasers Buying At:

	Jobber's cost price (cents)	Direct retailer's price (cents)	Jobber's selling price (cents)	Consumer's price (cents)
Prior to April 9, 1952	35.16	36.18	37.60	42.00
From April 9, 1952 to February 23, 1953	32.16	33.18	34.60	39.00
After February 23, 1953	26.96	28.00	29.10	33.00

(6) Margins on Cigarettes

The actual margins per thousand taken on standard Canadian cigarettes by the various categories of dealers at the "regular" prices in effect in the three periods distinguished above were as follows:

	Jobber selling to retailer at "jobber's selling price"	Retailer buying at "jobber's cost price" and selling to consumers	Retailer buying at "direct retailer's price" and selling to consumers	Retailer buying at "jobber's selling price" and selling to consumers
	(1)	(2)	(3)	(4)
Prior to April 9, 1952	$1.22	$3.42	$2.91	$2.20
From April 9, 1952 to February 23, 1953	1.22	3.42	2.91	2.20
After February 23, 1953	1.07	3.02	2.50	1.95

These margins represented the following rates of gross profit, as percentages of selling price:

	(1)	(2)	(3)	(4)
Prior to April 9, 1952	6.49%	16.29%	13.86%	10.48%
From April 9, 1952 to February 23, 1953	7.05	17.54	14.92	11.28
After February 23, 1953	7.35	18.30	15.15	11.82

The actual margins per package of 20 cigarettes taken by various categories of retailers at "regular" prices are listed in the following table:

	(1)	(2)	(3)	(4)
Prior to April 9, 1952	2.44¢	6.84¢	5.82¢	4.40¢
From April 9, 1952 to February 23, 1953	2.44	6.84	5.82	4.40
After February 23, 1953	2.14	6.04	5.00	3.90

The reduction in price to the consumer from January 1, 1952, to February 24, 1953, amounted, when cigarettes were sold at

"regular" prices, to 9 cents per package (from 42 cents to 33 cents) or $4.50 per thousand cigarettes. This reduction was divided among the various participating groups as follows:

	Per thousand	Per package
Excise tax and duty	$3.50	7.0¢
Manufacturer	.60	1.2
Jobber	.15	.3
Retailer	.25	.5
	$4.50	9.0¢

B. Price Competition in the Sale of Cigarettes, Winnipeg, Manitoba

On February 23, 1953, following the budget change in the excise duty on cigarettes and the reduction in the price of cigarettes by the manufacturer, standard brand cigarettes were generally sold at retail for 33 cents per package exclusive of provincial or local taxes, thus yielding the profit margins indicated on the previous page.

On February 28, 1953, the stores of chain store "X" in Winnipeg, Manitoba, began advertising "popular brands" of Canadian cigarettes at reduced prices, to meet a similar reduction made previously by an independent store in that city. The history of these advertised reductions as reported by this chain store is as follows:

"February 28, 1953 - Advertised - 1 day only -
Popular Brands - 20's 33 cents to 3/89 cents.

March 3, 1953 - Advertised 2 days - March 3, 4 -
Popular Brands - 20's 33 cents to 2/59 cents.

March 7, 1953 - Advertised 1 day only -
Popular Brands - 20's 33 cents to 2/59 cents.

March 12, 1953 - Advertised 1 day only -
Popular Brands - 20's 33 cents to 2/59 cents.

March 14, 1953 - Advertised 1 day only -
Popular Brands - 20's 33 cents to 2/59 cents.

March 16, 1953 - Regular Price Reduced -
Popular Brands - 20's 33 cents to 31 cents.

March 20, 1953 - Advertised 2 days, March 20, 21 -
20's 31 cents to 3/89 cents.

March 25, 1953 - Regular Price Reduced -
Popular Brands - 20's 31 cents to 3/89 cents."

On March 30, 1953, chain store "X" in Winnipeg increased the regular price to 32 cents, where it has since remained.

According to information received by the Director, there was no reduction by Winnipeg wholesalers of cigarettes in the "jobber's selling price", that is, the price at which the ordinary retailer purchased cigarettes. A number of retailers of cigarettes in Winnipeg did, nevertheless, reduce their price to meet "X's" price. On the basis of "X's" price of three packages of cigarettes for 89 cents, and assuming that other retailers fully matched this price, which they did not do in all cases, the following margins as percentages of selling price were taken by various categories of buyers.

Jobber selling to retailer at "jobber's selling price"	Retailer buying at "jobber's cost price" and selling to consumer	Retailer buying at "direct retailer's price" and selling to consumer	Retailer buying at "jobber's selling price" and selling to consumer
(1)	(2)	(3)	(4)
7.35%	9.13%	5.63%	1.92%

The stores of chain "X" in Winnipeg, which are (through their wholesale subsidiary) recognized as wholesalers by the manufacturers of cigarettes, earned the percentage return shown under (2) above, that is, 9.13 per cent, although this percentage return covered the payment for performing both the wholesale function and the retail function. Most independent retailers who matched "X's" price earned the percentage return shown under (4), that is, 1.92 per cent.

Representations were made to the Director, both by individual retailers and by the Manitoba Division of the Retail Merchants' Association of Canada, Inc., that many retailers were unable to meet the price reduction which had been made effective by the "X" stores and that in consequence these retailers were suffering serious declines both in their sales of cigarettes and, more importantly in many cases, in their sales of other lines of merchandise. In order to obtain as complete statistical information as possible on the effects of the reduction in the price of cigarettes in Winnipeg, a questionnaire, a copy of which is attached as Annex I, was circulated to approximately eighty retailers. In the preparation of the lists of retailers a high degree of co-operation was received from the Manitoba Division of the Retail Merchants' Association of Canada, Inc., which also gave active support to the project by contacting individual retailers. Despite this assistance, the response was disappointing, although the problem of computing precise sales data for a single product, such as cigarettes, undoubtedly presented serious difficulties for many of the retailers. Only five questionnaires were fully completed and returned. These returns provide a very narrow basis for generalization; however,

limited in number as they are, they are perhaps not without some value in suggesting the nature of the impact of the price competition that developed in the sale of cigarettes.

It will be noted from the questionnaire that information was requested on the volume of sales by the store in question of (1) cigarettes and (2) all items for three periods of roughly equal length: the first period preceded the cigarette price reduction by the "X" stores (February 28), the second period coincided with the period of reduced cigarette prices, and the third period began with the raising of the cigarette price by the "X" stores to 32 cents. All five returns received were made by combination grocery and meat stores for which sales of cigarettes accounted for an average of approximately 7 per cent of their total sales. Of the five retailers, only one reduced prices in the second period covered by the questionnaire. The sales experience of the one that did reduce his price (A) will be compared in the following table with that of the others who did not reduce their price. Sales for the first period will be shown as 100, and for the other periods as percentages of sales in period 1.

	Period 1			Period 2			Period 3		
	Cigarette Price	Cigarette Sales	Total Sales						
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Per diem sales of A	39¢*	100.00	100.00	30¢	111.50	92.11	33¢	124.00	108.31
Per diem sales of "the others"	39¢	100.00	100.00	33¢	74.39	93.92	33¢	82.42	97.07

* 39 cents per package was the suggested retail price until February 23, 1953, when the reduction in excise duty and in the manufacturer's price brought it down to 33 cents. Higher-cost stocks were in many cases disposed of before the price was reduced.

It would appear that in the second period, retailer A, who reduced the price of cigarettes approximately to the level charged by the "X" stores, succeeded in expanding his sales of cigarettes slightly, but, in spite of this increase, he suffered a decline in his total sales to about the same degree as the retailers who did not reduce cigarette prices. However, A's cigarette price reduction in the second period appears to have had a continuing influence on his sales in the third period, and both his cigarette sales and his total sales rose above their levels in the first period.

The retailers who maintained a price of 33 cents throughout the three periods suffered a sharp reduction in their sales of cigarettes in the second period and a less marked reduction in their total sales. In the third period, they began to recover their sales volume in both categories of sales, although more slowly than the retailer who had reduced his cigarette price in period 2.

As already explained, the completed returns from Winnipeg retailers are too few to provide an adequate basis for generalization, although the major trends indicated by the sales data receive support from comments made by a number of retailers who were unable to complete the forms due to lack of precise sales information. The following are typical:

> ". . . it is my personal estimate that our cigarette sales have dropped between 15% to 20%, and our total sales from 5% to 10%."
>
> * * *
>
> "I do not think there was any change in my cigarette sales as I went along with the price cuts."
>
> * * *
>
> "Only effect in reducing sales was when chain stores were selling at lower prices. Otherwise sales have been about the same. During period of chain store price cutting sales drop in store was about 25%."
>
> * * *
>
> "Cigarette sales dropped for about a week but returned to normal as soon as we dropped our price."
>
> * * *
>
> "I definitely was hurt in business by the cigarette war. In fact my sales dropped 25%. It also did damage to other sales . . ."
>
> * * *
>
> "The cigarette war . . . reduced our sales at least 1/3 and also general business at 1/3. Business is starting to come back to normal now with the chain stores prices . . . increased to 32¢ per pack."
>
> * * *
>
> "When we found that a great many of our customers were going elsewhere to buy their cigarettes at give-away prices we realized that they were very apt to buy their grocery requirements at the same time. So in order to protect our business and counteract the low cigarette price we gave away a package of cigarettes with a grocery order of specified amount, but maintained our cigarette prices at regular prices . . .
>
> In this way I think we avoided any loss of business which we surely would have experienced if we had not taken the means at hand to combat it."

(1) Effect on Sales of the Reduction in the Price of Cigarettes in the "X" Stores, Winnipeg, Manitoba

Information on sales of cigarettes and of all products by the "X" stores in Winnipeg was requested at an early stage in the investigation of the complaints received from independent retailers and from the Manitoba Division of the Retail Merchants' Association of Canada, Inc., and hence does not relate to sales after the price was raised to 32 cents on March 30, 1953. The sales data were provided on the basis of the four-week accounting period employed by chain store "X" and, therefore, do not coincide as closely as could be desired with the dates of changes in cigarette prices. Any significant changes in sales volume should, nevertheless, be shown by the periods employed. Comparative data for like periods in 1952 are supplied. It will be recalled that the "X" stores reduced the price of cigarettes, to meet that of an independent, on February 28, 1953.

Four Weeks ending	Sales of Cigarettes		Total Sales	
	(Sales in dollar volume for the 4-week period ending January 26, 1952 = 100)			
Jan. 26. 52	100		100	
Jan. 24. 53		94		108
Feb. 23. 52	92		111	
Feb. 21. 53		117		112
Mar. 22. 52	105		114	
Mar. 21. 53		336		120

The four-week period ending March 21, 1953, shows a very sharp rise in cigarette sales to a level almost three times that in the preceding four-week period and in the comparable period of 1952. Total sales for the four-week accounting period ending March 21, 1953, show a substantial increase as compared with the preceding four-week period and the comparable period of 1952. Approximately half of this increase can be attributed to higher sales of cigarettes, and the balance is not out of line with the increases in total sales that had been taking place, independently of the effect of cigarette prices, during 1953 and it is therefore quite doubtful that any significant part of it should be attributed to purchases made by customers who were induced to visit the "X" stores by the reduced price of cigarettes. Sales in each of the other two accounting periods in 1953 for which we have information were also higher than sales in the comparable period of 1952: Hence some increase in sales in the third accounting period of 1953 might be expected as a reflection of the expanding patronage the "X" stores were apparently attracting. It

would appear on the basis of the available statistical information that the reflex effect of the cigarette price reduction on sales of other products was small, even though the effect on cigarette sales was very marked. It should be added, however, that although the increase in total sales that could be attributed to reduced cigarette prices was small in relation to the volume of sales enjoyed by the "X" stores, it would, nevertheless, if concentrated on a number of small retailers closely adjacent to the "X" stores and whose sales were in the neighbourhood of $2,000 to $6,000 per month, become a matter of considerable consequence.

Information on cigarette sales and total sales was subsequently requested for the four-week periods ending April 18, 1953 and May 16, 1953.

Four weeks ending	Sales of Cigarettes	Total Sales
	(Sales in dollar volume for the 4-week period ending January 26, 1952 = 100)	
Apr. 18. 53	231	123
May 16. 53	139	124

Cigarette sales during these two periods fell off markedly from the peak reached in the period ending March 21, 1953, although they remained approximately 39 per cent above sales in the base period. Despite this falling off in cigarette sales from their peak level, total sales continued to expand above the levels reached in the period ending March 21, 1953, thus lending support to the conclusion reached on the basis of the earlier data submitted that the reflex effect of cigarette sales on the sales of other products was probably small.

(2) <u>Mark-Up on Sales in the Retail and Wholesale Divisions of the "X" Company, Winnipeg, Manitoba</u>

Cigarettes are supplied to the stores of the "X" chain by its wholesale subsidiary. In Winnipeg, all merchandise so supplied is subject to the same warehouse charge which is subject to later adjustment should costs exceed this charge. According to information supplied the Director on April 23, 1953, this warehouse upcharge had been fixed at 2 per cent since January 1, 1953, and had not exceeded 2 per cent. The Winnipeg warehouse of "X's" wholesale subsidiary makes no sales to independent retailers in Manitoba, so that no comparison of wholesale charges on sales to the stores of the "X"

chain as compared with sales to independent retailers is possible in this case.

The average gross profit (mark-up) as a percentage of net sales for 1952 in the retail grocery division of the "X" chain in Winnipeg was 14.02 per cent. As already indicated, the mark-up on cigarettes in the "X" system at the reduced price of 3 packages for 89 cents was 9.13 per cent on selling price, which, with a warehouse charge of 2 per cent, would leave a retail mark-up of about 7 per cent. At a price of 32 cents per package, the total mark-up would equal 15.75 per cent on selling price, which, after deduction of the warehouse charge, would leave a retail mark-up of approximately 14 per cent.

The average mark-up of 14.02 per cent referred to above is made up of a wide range of mark-ups thus making a comparison of the average with the mark-up on any individual item of limited value. In making comparisons it is desirable where possible to find items which are closely comparable as to shelf space required, handling costs, and so on. In reply to a request directed to the "X" chain to list five such items, with their buying and selling prices, this firm replied:

> "It is very difficult if not impossible to indicate items comparable with cigarettes as to shelf space, handling costs, etc. Cigarettes take up very little shelf space and sell every day. As to frequency of sale, namely, items which sell every day, butter, eggs and milk are comparable, but they require much more space and also require refrigeration. On account of comparability as to frequency of sale we have included butter and milk in the Winnipeg items . . . Other items which take up much more space than cigarettes but still more comparable to that of cigarettes are shown as the other three items."

The items with the percentage mark-up on selling price for the retail function only are:

Butter	4.84 per cent
Milk	5.56 " "
A brand of laundry soap	5.63 " "
A brand of matches	10.50 " "
A brand of jelly powders	12.07 " "

(3) Attempts by Groups of Independent Retailers in Winnipeg to Obtain Better Buying Terms for Cigarettes

The position taken by the Manitoba Division of the Retail Merchants' Association of Canada Inc., in correspondence with the Director was that the pricing system of the manufacturers of cigarettes resulted in the granting of lower buying prices to chain stores and certain other customers which did not depend upon the quantities purchased and which were prejudicial to the competitive position of the independent retailer. It was stated that the price advantage enjoyed by the preferred buyers enabled them to use cigarettes with the same effect as a "loss-leader" item. The argument was summed up by D. A. Gilbert, President of the Manitoba Division of the R. M. A., in a letter of March 25, 1953, to the Director, as follows:

> "By virtue of preferential pricing from the manufacturers these outlets have been enabled to profitably retail popular brands of cigarettes at prices which closely correspond to the wholesaler's price for the majority of the independent trade. In other words, to compete, the independent must sell cigarettes as Loss Leaders."

In addition to alleging that the pricing practices employed by the manufacturers of cigarettes were discriminatory, the Manitoba Division of the R. M. A. undertook a more direct approach to obtaining better buying terms for the independent retailers in the city of Winnipeg. The following letter of April 16, 1953, to J. C. "McLellan", Imperial Tobacco Sales of Canada, Winnipeg, Manitoba, indicates the nature of this approach.

> "Dear Sir:
>
> We are contemplating setting up a buying group for the members of the Retail Merchants Association in Manitoba and would like the following information from you.
>
> (1) Would a group of merchants having a central buying office such as the office of the Retail Merchants Association in Winnipeg be allowed by your Company to purchase their cigarettes at 26.9 cents direct wholesale?
>
> (2) What would be the minimum quantity required to purchase at this price?
>
> The situation in Manitoba as regards cigarettes is critical and we would appreciate an early reply.
>
> Kindest regards,
>
> Yours truly,
>
> M. M. Wocks, Secretary Manager,
> Retail Merchants Association of Canada Inc.
> Manitoba Division."

On April 27, 1953, the following reply was sent to M. M. Wocks, Secretary Manager, Retail Merchants' Association of Canada Inc., Winnipeg:

"Dear Sir:

In reply to yours of the 16th, we have carefully reviewed the number of wholesale dealers to whom we sell in the Province of Manitoba by the areas in which they are operating, and we believe that there is a sufficient number of such dealers to adequately distribute our products to the retail trade. We, therefore, regret that we are unable to accede to your request.

Yours faithfully,

IMPERIAL TOBACCO SALES
COMPANY OF CANADA, LIMITED

J. C. McLennan
Divisional Manager."

Another attempt by a group of retailers in Winnipeg to obtain better buying terms from the manufacturers of cigarettes was brought to the attention of the Director. The Argo Distributors Ltd., are the distributors for the A. R. G. stores, approximately 150 small retail grocery and meat stores in Winnipeg. The Director was informed that they did not have warehousing facilities but used a central purchasing office. On March 20, 1953, C. Sampson, Manager of Argo Distributors Ltd., wrote the Imperial Tobacco Sales Company of Canada, Limited, Winnipeg, Manitoba, as follows:

"Gentlemen:

The Argo Distributors Ltd. have been established as a wholesale house in Winnipeg.

We desire to purchase your products on the direct list and at the same prices as sold to other wholesale houses.

Trusting that you will give this matter your immediate attention, I remain

Very truly yours,

Argo Distributors Ltd.

Per C. Sampson
Manager."

H. S. Egles, Branch Manager, Imperial Tobacco Sales Company of Canada, Limited, replied on April 6, 1953 as follows:

"Attention Mr. C. Sampson

Dear Sir:

We have for acknowledgment your letter of March 20th in connection with your request to become a distributor of our products, and regret to advise that we are unable to accede to your request.

With all best wishes, we are

Yours faithfully,

IMPERIAL TOBACCO SALES
COMPANY OF CANADA, LIMITED

H. S. Egles
Branch Manager."

Neither of these letters to the tobacco company discloses whether the writers had in mind to buy into a central warehouse, thus affording the supplier the same convenience and economy in this respect as are present in sales to chains and wholesalers. In view, however, of the fact that the point was not raised in the replies, it may reasonably be assumed that the refusal of the company did not depend upon this consideration.

C. Price Competition in the Sale of Cigarettes, Vancouver, B. C.

On March 19, 1953, the "X" stores in Vancouver, B. C. began advertising "popular brands" of Canadian cigarettes at 31 cents for a single package, three packages for 89 cents and $2.95 for a carton of ten packages, all prices plus provincial sales tax. These prices have, according to information received by the Director, continued in effect to the present.

The reaction by independent retailers to this reduction was mixed: some met it promptly; a few, it appears, delayed their price reduction for a month or longer; and some continued to sell at the "regular" price of 33 cents per package. Pressure from retailers who were in close competition with the stores of the "X" chain and of other chain-store groups that followed "X's" price reduction, and who had lowered their price to consumers, was exerted on wholesalers of cigarettes to lower the "jobber's selling price" and thereby enable the retailer to meet the lower chain-store price with less difficulty. Within ten days of the price reduction by the "X" stores (i.e., March 29, 1953), a number of wholesalers of cigarettes had reduced the

"jobber's selling price" to retailers who were under competitive pressure from $14.55 to $14.00 per thousand (28 cents per package). According to a news report of April 7, 1953, a reduction to $14.00 was made on that day by all wholesalers of cigarettes in the Vancouver area, at least.

On the basis of "X's" price of three packages of cigarettes for 89 cents, and assuming that all retailers sold at this price and that they purchased their cigarettes from wholesalers at a price of $14.00 per thousand, the following margins as percentages of selling price were in effect for various categories of buyers. In parentheses the margins taken when "regular" prices prevailed are shown.

Jobber selling to retailer at "jobber's selling price	Retailer buying at "jobber's cost price" and selling to consumer	Retailer buying at "direct retailer's price" and selling to consumer	Retailer buying at "jobber's selling price" and selling to consumer
(1)	(2)	(3)	(4)
3.71% (7.35%)	9.13% (18.30%)	5.63% (15.15%)	5.63% (11.82%)

The "X" stores, being qualified to purchase cigarettes at the "jobber's cost price", earned the percentage return shown under (2) to cover both their wholesale and retail functions in distributing cigarettes. In contrast to the situation in Winnipeg, the jobber selling to retailers in Vancouver experienced a substantial reduction in his margin as shown under (1). There was a concomitant increase, after the reduction in the "jobber's selling price", in the margin of the retailer buying from a jobber: from 1.92 per cent to 5.63 per cent. In fact, the ordinary retailer buying from a jobber in Vancouver obtained, at least after April 7, 1953, the same buying terms as the retailer who was granted the "direct retailer's price" by the manufacturer.

Complaints about the effects of the cigarette price reduction initiated by the stores of the "X" chain were received from individual retailers and wholesalers, from the Grocers' Division of the Retail Merchants' Association of Canada (British Columbia) Inc., and from the B. C. Tobacco & Candy Jobbers Association. The view of the retailers and of the Grocers' Division of the R. M. A. was similar to that of the retailers in Winnipeg, viz., that they were unable to meet the reduced price and still handle cigarettes profitably, and that as a result sales of both cigarettes and their other lines of merchandise were experiencing a serious falling off. The wholesalers, particularly those dependent on cigarettes for a substantial proportion of their sales, stated that they were suffering a decline in the volume of their turnover because of the diversion of cigarette sales from the independent retailer to the chain store, and that the reduced mark-up

which they accepted in an attempt to improve the competitive position of the independent retailer was insufficient to cover their costs.

A statistical check on the effect of the reduction in the cigarette price on the sales of independent retailers was attempted in Vancouver along the same general lines as in Winnipeg. A copy of the questionnaire is attached as Annex II. This questionnaire was sent out to approximately eighty retailers. Valuable assistance in preparing the lists of retailers and in other aspects of the statistical survey was given by the Grocers' Division of the R. M. A. of Canada (British Columbia) Inc. Complete returns were received from twelve retailers, the higher number of returns received in Vancouver than in Winnipeg probably being attributable to the fact that the lower price continued in effect in Vancouver whereas in Winnipeg the price had been raised to within one cent of its "regular" level. Again, the returns are not sufficiently numerous to yield confident generalizations but they may indicate rather roughly some of the effects of the cigarette price reduction.

Sales data for (1) cigarettes and (2) for all lines of merchandise carried were requested for three two-week periods: the first preceded the reduction in the price of cigarettes, the second followed almost immediately after the price reduction, and the third followed by about a month the initial cut in the price of cigarettes. The purpose of including the third period was to note whether, after the initial effect of the price reduction, there might be a tendency for the convenience factor in cigarette purchases to re-assert its influence and to pull cigarette sales back to customary and convenient outlets that in some cases maintained their prices, or whether those retailers that first cut prices tended to enjoy a cumulative advantage.

Of the twelve completed returns, six were received from retailers of groceries or groceries and meats whose sales of cigarettes accounted for approximately 10 per cent of their total sales, three were received from drug stores for which cigarettes accounted for approximately 11 per cent of total sales, one was received from a retailer of confectionery whose sales of cigarettes reached 21 per cent of his total sales, one was from a restaurant for which cigarettes accounted for just over 24 per cent of total sales, and one was received from a tobacconist whose sales of cigarettes were just over 69 per cent of his total sales. If these percentage figures are compared with the data from the 1941 Census of Merchandising (see above, p. 209), it would appear that the retailers of groceries or groceries and meats replying to our questionnaire, and the restaurants as well, had a substantially larger proportion of their sales in cigarettes than the 1941 national average for such retail outlets, the confectionery store was moderately below the national average for that type of outlet, and the drug stores and the tobacconist were almost exactly equal to the national average for such outlets.

Six retailers reduced prices in the second period to 31

cents (plus tax). Of these, five were grocery outlets and one was a drug store. An additional three retailers - grocery and meat, confectionery, and tobacconist - reduced their prices in the third period, and three retailers - restaurant, grocery and meat, and confectionery - had not reduced their prices at the time the questionnaires were returned to the Director.

The experience of one retailer in the group of six who reduced their prices of cigarettes in the second period diverges so much from that of the remaining five that to combine them in a single average would give a distorted result. Hence, the retailers reducing prices in the second period are divided into two groups - "A", the single retailer, and the "Others".

	Cigarette Price (excl. tax)	Cigarette Sales	Total Sales						
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
	(March 2-14)			(March 23-April 4)			(April 13-25)		
Per Diem Sales of Retailers Reducing Price in 2nd Period									
"A" (1)	33	100	100	31	206.8	116.7	31	126.9	102.8
Others (5)	33	100	100	31	65.8	84.2	31	90.9	92.6
Per Diem Sales of Retailers Not Reducing Price in 2nd Period (6)	33	100	100	33	78.6	94.4			
Per Diem Sales of Retailers Reducing Price in 3rd Period (3)	33	100	100	33	80.9	100.9	31	76.8	85.1
Per Diem Sales of Retailers Not Reducing Price in 3rd Period (3)	33	100	100	33	73.5	90.0	33	63.7	90.0

Retailer "A" used the price reduction in the second period with considerable success to more than double his sales of cigarettes and to increase his total sales by a substantial margin. In the third period, however, sales of cigarettes fell off very sharply, although still above the first period level, as competing firms matched his early price reduction, and his total sales fell off to approximately the first-period level. The other retailers who reduced the cigarette price in period two apparently did so under heavy competitive pressure as their sales of cigarettes and their total sales as well suffered an even sharper percentage decline than did the sales of the six retailers who did not reduce their cigarette price in the second period. However, by the third period cigarette and total sales of the five retailers who reduced their cigarette price in the second period were recovering their first period levels.

The six retailers who did not reduce their price for cigarettes were, evidently, not seriously vulnerable during the second period to the price competition, as their sales of cigarettes showed a comparatively moderate decline and their total sales fell off only slightly. By the third period, however, the sales of three retailers in this group - and these three had shown the smallest drop of any group during the second period - showed serious declines both in cigarette sales and in total sales and, in response to this pressure, these retailers reduced their cigarette price. It will be recalled that included in this group were a grocery and meat store, a confectionery and a tobacconist.

The three remaining retailers did not reduce their cigarette price during the period covered by the questionnaire. Although they suffered a drop of 10 per cent in total sales and a much sharper decline in cigarette sales in the second period, their position was more stable than that of any other retailer from whom a report was received. In the third period, it will be noted, their total sales were still 90 per cent of their first period sales, even though cigarette sales had continued to fall off. The retailers in this group operated a restaurant, a drug store, and a grocery and meat store.

These data may tend to over-state the effect of the cigarette price reduction in as much as the retailers most seriously affected would, in general, be more likely to complete the questionnaire than those who were affected only slightly. However, the general conclusions arising from the statistical material receive support from the following quotations from letters sent to the Director by retailers who were unable to provide dollar and cent figures on sales:

> "Up to the time I reduced my cigarette prices to meet the grocery competition, I lost customers to be sure, now that I have a large sign in the window stating that I too am 'giving' cigarettes away, maybe I can get some of them back again. In the interim, people were criticizing me and my staff for not selling as cheaply as the grocer down the street. When these

people stopped coming in, I was also missing the other business they would bring with them . . ."

* * *

"My customers complained that the prices of my cigarettes were not in line with the chain stores. Therefore, in an attempt to regain and hold my cigarette sales, to retain my customers and to help keep my small independent tobacco wholesaler in business, I have had to reduce the price, when purchased in quantities of 3 packages or over, as follows:

3 packages	92¢
Carton of 10	3.--

Regardless of my attempt to satisfy my customers, I have undoubtedly lost some who are purchasing at chain store prices. Needless to say, it follows that because of this I have also lost a certain portion of food sales."

* * *

"The largest noticeable drop in business was in the period of March 23rd. to April 1st. when the sale of cigarettes was negligible. It seemed to be affecting our total business to the point where I decided to meet the reduced price.

I advertised the reduced price with large placards in the store and our business came right back to normal."

* * *

"However, in regard to cigarette sales there has been a noticeable decrease in sales immediately following the price cut by . . . . There has been a gradual increase since then due to the price reduction in our store, equalling that of . . .'s prices."

* * *

"Due to customers buying their cigarettes in chain stores, they are inclined to buy their groceries there also at the same time."

* * *

"For some days after the price change there was a noticeable reduction in the sales of other items, i.e., impulse sales of candy, cookies, bread etc., and soft drink sales also were affected.

From a volume point of view, as distinct from the profit

aspect, my cigarette business has returned but a contributing factor is that one of my competitors does not, I have been told, sell at the further reduced price of 3 for 89¢ or a carton of 10 packages for $2.95 . . ."

* * *

"The working man complained bitterly about my price (34¢) and a number walked out. I was told by a few that the wife buys the cigarettes now at the chain stores.

Merchants in the vicinity that usually purchased a package of cigarettes every day tell me they now go to a Chain Store buying 10 packages - 2.95 - (cost me 2.80). At least I know of nine men, very good customers, that only drop in occasionally now for a magazine or chocolate bar.

Usually the smoker will purchase his brand of cigarettes at the counter then wander over to the magazine rack or chocolate bar stand or help himself to a soft drink. My sales on these lines have decreased 30%."

(1) Effect on Sales in the "X" Stores, Vancouver, of the Reduction in the Price of Cigarettes

The information on sales of cigarettes and of all products by the "X" stores in Vancouver, which was requested at an early stage in this inquiry, does not carry beyond April 1, 1953. It is further limited by the fact that records for the early months of 1953 and comparative periods of 1952 were available only for the four-week accounting period employed by the "X" stores and for the "Vancouver Zone" which includes 52 stores, of which only 28 are in the city of Vancouver where the cigarette price reduction was apparently first introduced. Separate sales data were, however, obtained for the two-week period preceding and the two-week period following the price reduction for the 28 stores in the city of Vancouver.

Vancouver Zone - 52 Stores

Four Weeks ending	Sales of Cigarettes		Total Sales	
	(Sales in dollar volume for the 4-week period ending January 26, 1952 = 100)			
Jan. 26. 52	100		100	
Jan. 24. 53		112		103
Feb. 23. 52	107		107	
Feb. 21. 53		118		108
Mar. 22. 52	110		110	
Mar. 21. 53		120		109
	City of Vancouver - 28 Stores			
	(Sales in the period March 5-18, 1953 = 100)			
Mar. 5-18. 53 (incl.)	100		100	
Mar. 19-Apr. 1. 53 (incl.)	1,062		108	

The comparative figures for the three four-week periods in 1952 and those in 1953 display a fairly steady 10 per cent increase in cigarette sales in 1953; total sales, however, show no appreciable difference in the periods under comparison for the two years. The data for the period March 5-18, 1953 and March 19-April 1, 1953, for the 28 "X" stores in the city of Vancouver show almost a ten-fold increase in the dollar value of cigarette sales in the second period. On the other hand, total sales for the same stores increased in the second period by less than the increase in cigarette sales. In this case and for the short period covered, there is no positive evidence that the price of cigarettes attracted sales of other grocery and meat items.

Information was subsequently requested from the "X" firm relating to sales data for the stores in the Vancouver zone for the four-week periods ending April 18, 1953 and May 16, 1953, and for the stores in the city of Vancouver for the two-week periods ending April 18, May 2, May 16, and May 30, 1953.

Vancouver Zone - 52 Stores

Four Weeks ending	Sales of Cigarettes	Total Sales
	(Sales in dollar volume for the 4-week period ending January 26, 1952 = 100)	
Apr. 18. 53	315	112
May 16. 53	314	112

City of Vancouver - 28 Stores

Two Weeks ending	Sales of Cigarettes	Total Sales
	(Sales in dollar volume in the period March 5-18, 1953 = 100)	
Apr. 18. 53	443	103
May 2. 53	443	103
May 16. 53	452	105
May 30. 53	438	100

For the stores in the Vancouver zone, sales of cigarettes experienced a very substantial increase in the periods ending April 18 and May 16, 1953; total sales, although showing some increase, displayed a smaller increase in dollar amounts, when compared with sales in February and March of both 1952 and 1953, than the increase in the dollar amounts of cigarette sales.

For the stores in the city of Vancouver, cigarette sales fell off sharply from the level reached in the period March 19-April 1, 1953, but remained more than four times as large as in the base period (March 5-18, 1953). Total sales, however, increased for three of the four periods (those ending April 18, May 2, and May 16) by only approximately the same dollar amounts as the sales of cigarettes increased, and for the fourth period (that ending May 30) total sales were about the same as they were in the base period despite the increase in cigarette sales.

(2) Mark-Up on Sales in the Retail and Wholesale Divisions of the "X" Company, Vancouver, British Columbia

As in Winnipeg, cigarettes are supplied to the stores of the "X" chain by its wholesale subsidiary. The same warehouse up-

charge applies to all merchandise, including cigarettes, and fluctuated as follows during 1953:

4 Weeks Ending -

Jan. 24. 53	2.34%	
Feb. 21. 53	2.03%	
Mar. 21. 53	2.09%	
Mar. 22 to date of letter (April 23, 1953)	2.00%,	subject to adjustment on the basis of cost data at the end of the 4-week period.

The Vancouver warehouse of "X's" wholesale subsidiary makes no sales to independent retailers; however, this company does have a wholesale warehouse at Victoria, B. C., which makes sales to independents. The average gross profit percentage taken by this warehouse on total sales to independents was 5.86 per cent on sales for 1952. Such sales, it need hardly be pointed out, involve costs of soliciting business, warehouse handling and shipment which might be expected to exceed substantially the costs involved in sales to "X" stores. The gross profit percentage taken on sales to affiliated independents by another large wholesaler of grocery products in the Vancouver area, according to information provided the Director, ranges from 5 per cent on monthly sales of $2,500 or over, to 5 1/2 per cent on sales between $2,500 and $1,000, to 6 per cent on sales of less than $1,000. It is of interest to refer to the case of still another wholesaler of grocery products selling to affiliated retailers, this time in Fort William, Ontario, whose "fee schedule" covers twelve volume categories, from a fee of 5.815 per cent on monthly purchases of $1,000 to $1,499, through a fee of 5 per cent on monthly purchases of $2,500 to $2,999, to the minimum fee of 3.75 per cent on monthly purchases of $6,500 and over. It may be noted that the Victoria wholesale warehouse of "X's" wholesale subsidiary reduced the "jobber's selling price" of cigarettes from $14.55 per thousand to $14.00 per thousand on March 20, 1953, the day following the cigarette price reduction in "X's" retail stores.

The average gross profit (mark-up) as a percentage of net sales for 1952 in the retail grocery division of the "X" chain in the Vancouver Zone was 12.78 per cent. It has already been pointed out that the mark-up on cigarettes at the reduced price of three packages for 89 cents (plus tax) to cover both the wholesale and retail divisions of "X's" operations was 9.13 per cent on selling price net of provincial tax, which with a warehouse charge of approximately 2 per cent would leave a retail mark-up of about 7 per cent.

A request was made to the "X" stores for mark-up data for individual items which would compare as closely as possible with cigarettes as to shelf space, costs of handling and the like. As

already reported in the section dealing with mark-ups in the Winnipeg stores of the "X" chain, this firm pointed out it was "very difficult if not impossible" to indicate such items. However, five items were chosen, which required considerably more shelf space than cigarettes and which required, in one case, refrigeration as well. The items with the percentage mark-ups on selling price are:

Eggs	6.35 per cent
Butter	6.00 " "
A brand of tea	8.82 " "
A brand of coffee	7.00 " "
A brand of biscuits	8.79 " "

(3) Comparative Volume of Cigarettes Purchased by Different Categories of Buyers in Vancouver

It will be remembered that complaints were received by the Director from groups of independent retailers to the effect that they were unable to buy as advantageously as the chains even where they were willing to buy in comparable quantities. It will also be remembered that certain retailers, selected upon no very defined basis, are granted direct buying privileges at better prices than the retailers not so favoured must ordinarily pay to wholesalers. Some attention was therefore directed to a comparison of the volumes purchased by the different buying categories and the relationship of such volumes to the prices paid.

In order to obtain data relating to the volume of purchases made by dealers (wholesalers or retailers) buying at the "jobber's cost price" and the "direct retailer's price", information was sought direct from the four major manufacturers of cigarettes; and to obtain information on the volume of sales made at the "jobber's selling price", information was sought from wholesalers. The area selected for this survey was Greater Vancouver. The letters that went out to the principal wholesalers (21 in all) handling cigarettes and tobaccos in Vancouver requested data on the volume of cigarettes purchased by the firm's ten largest buyers of cigarettes in the period October to December, 1952 (inclusive), together with the price charged each buyer and the discounts, rebates, promotional and other allowances granted each buyer. Replies were received from ten wholesalers, the remaining wholesalers indicating that the preparation of the requested material was not possible with their present staffs.

The fact that the coverage of sales to retailers at the "jobber's selling price" is incomplete on two levels - viz., only the ten largest accounts of each wholesaler are reported on, and reports were received from only ten wholesalers - is very likely to result in an understatement of the purchases made by the various retailers listed. A retailer who shows up in the list of a wholesaler reporting may also purchase from another reporting wholesaler but not

sufficiently to be included among his ten largest accounts; or he may purchase in addition, from a wholesaler who has not reported; and his total purchases would be by those amounts understated. Hence the sales data for "regular" retailers must be regarded as representing minimum purchases only. There is, furthermore, no assurance that the largest retail purchasers are included in the ten wholesalers' lists received.

The sales data on purchases by retailers at the "jobber's selling price" were not broken down by the reporting wholesalers into the sales of the standard brands of cigarettes of each of the major manufacturers. Only a single total sales figure for each of ten retailers was given by each reporting wholesaler. In order to allocate this total among the four major manufacturers of standard Canadian cigarettes a calculation was made of the proportion of total wholesale purchases of cigarettes which came from each of the major manufacturers and the purchases of each retailer were divided among the manufacturers in the same proportion. In other words, retail purchases from wholesalers were allocated among manufacturers in the same proportion as wholesale purchases from manufacturers by the reporting wholesalers. Although this procedure may not yield dependable results in the case of any individual retailer's sales, the margin of error over all should not be significant. However, the figures for estimated purchases by retailers at the "jobber's selling price" should be taken as indicating the general order of magnitude of such purchases rather than their precise amounts.

Each of the four major manufacturers of standard brands of Canadian cigarettes, Imperial Tobacco Sales Company of Canada, Limited, The Tuckett Tobacco Co. Limited (which acts as agents for B. Houde & Grothé Limited in British Columbia), the Rock City Tobacco Company (1936) Limited, and W. C. Macdonald Incorporated (whose direct retail accounts are sold by W. L. Mackenzie & Co., Limited, for its own account, which firm also makes shipments "ex stock" at Vancouver to W. C. Macdonald wholesale accounts), was asked to supply sales data for all purchasers in Greater Vancouver of standard Canadian cigarettes for the period October to December, 1952 (inclusive), buying at (1) "Jobber's cost price", and (2) "Direct retailer's price". In addition, each manufacturer was asked to list the actual prices charged each such purchaser for standard brands of Canadian cigarettes, all discounts, allowances or concessions granted each purchaser, and the date, if within the past five years (May 1, 1948 - May 1, 1953), when each such purchaser was granted the buying category he enjoys.

All manufacturers reported that during the three-month period the "jobber's cost price" was $16.08 per thousand cigarettes, and the "direct retailer's price" was $16.59 per thousand. The only discount or allowance reported was a cash discount given by one manufacturer (W. C. Macdonald Incorporated) of 4/10 of 1 per cent of the total invoice amount.

In order to compare the quantities of standard Canadian cigarettes purchased by regular retailers at the "jobber's selling price" ($17.30 per 1,000), with those of retailers at the "direct retailer's price" ($16.59 per 1,000), and with those of wholesalers at the "jobber's cost price" ($16.08 per 1,000) from each of the four major manufacturers, a table was prepared listing the purchases on a comparative basis. All retailers buying at the "direct retailer's price" were listed and all dealers buying at the "jobber's cost price" were listed but it was not necessary to list individually all the dealers who bought at the "jobber's selling price"; for example, in column (1) of Table I all the retailers whose reference numbers lie between 1 and 30 had estimated purchases lying between the estimated quantities corresponding to these numbers.

The tables are largely self-explanatory; however, one or two comments may be of assistance. The reference numbers in column (1) refer to the order of the size of purchases made by retailers buying cigarettes at the "jobber's selling price". Column (2) gives the figures of estimated purchases for the retailers referred to in the "name of firm" column. Column (3) lists the number of cigarettes purchased by retailers buying at the "direct retailer's price" opposite the name of the retailer as shown under "name of firm". Column (4) lists the number of "regular" retailers (i.e., those buying at the "jobber's selling price") buying a larger number of cigarettes than the "direct retail buyer" referred to under (3). For example, in Table I, W. F. Smith Ltd., purchased 38,000 cigarettes during the period in question at the "direct retailer's price" and there were 67 regular retailers, buying at the "jobber's selling price", who presumably purchased larger quantities of cigarettes.

Column (5) lists the number of cigarettes purchased by buyers granted the "jobber's cost price" opposite the name of the account show under "name of firm". Column (6) lists the number of retailers buying at the "direct retailer's price" who bought larger numbers of cigarettes than the purchaser, under (5), who bought at the "jobber's cost price". And column (7) lists the number of "regular" retailers, buying at the "jobber's selling price" who presumably bought larger numbers of cigarettes than the purchaser, under (5), who bought at the "jobber's cost price".

For obvious reasons, names have been omitted and the parties have been designated by numbers and letters.

TABLE I

Comparison Between the Quantities of Cigarettes, Purchased during the Period October-December, 1952, Inclusive, by 97 Vancouver Retailers through their Wholesalers, Estimated to have Originated from Manufacturer "A", and the Quantities Purchased during the same Period by Vancouver Direct Retailer and Jobber Accounts of this Manufacturer

Name of Firm	Ref. No.	Estimated Purchases made by regular retailers of cigarettes	Purchases made by direct retail accounts	Number of regular retailers buying larger quantity than figure in column (3)	Purchases made by jobber accounts	Number of direct retailers buying larger quantity than figure in column (5)	Number of regular retailers buying larger than figure in column (5)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Retailer	1	9,840					
Retailer	30	32,160					
Direct Account 1a			38,000	67			
Retailer	31	38,020					
Direct Account 2a			39,000	66			
Retailer	32	39,540					
Retailer	38	44,320					
Direct Account 3a			46,000	59			
Retailer	39	46,240					
Retailer	47	62,640					
Direct Account 4a			63,000	50			
Retailer	48	63,060					
Retailer	72	81,340					
Direct Account 5a			84,000	25			
Retailer	73	84,400					
Direct Account 6a			88,000	24			
Retailer	74	89,300					

Table I, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Retailer	84	105,780					
Direct Account 7a			107,000	13			
Retailer	85	109,180					
Retailer	88	112,620					
Jobber Account 1A					115,000	10	9
Retailer	89	120,720					
Retailer	95	150,060					
Direct Account 8a			161,000	2			
Direct Account 9a			164,000	2			
Retailer	96	165,700					
Retailer	97	167,700					
Jobber Account 2A					223,000	8	
Direct Account 10a			242,000				
Direct Account 11a			242,000				
Direct Account 12a			266,000				
Jobber Account 3A					385,000	5	
Direct Account 13a			398,000				
Jobber Account 4A					408,000	4	
Jobber Account 5A					507,000	4	
Direct Account 14a			553,000				
Direct Account 15a			560,000				
Jobber Account 6A					637,000 (Purchases made Nov. 26-Dec. 31, 1952, only)	2	
Jobber Account 7A					767,000	2	

Table I, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Direct Account 16a			1,009,000 (Purchases made Oct. 1- Nov. 25, 1952 only)				
Jobber Account 8A					1,048,000	1	
Jobber Account 9A					1,311,000	1	
Jobber Account 10A					1,383,000	1	
Jobber Account 11A					1,855,000	1	
Jobber Account 12A					1,862,000	1	
Jobber Account 13A					2,507,000	1	
Jobber Account 14A					2,511,000	1	
Jobber Account 15A					3,103,000	1	
Jobber Account 16A					3,202,000	1	
Jobber Account 17A					3,300,000	1	
Jobber Account 18A					3,610,000	1	
Direct Account 17a			3,927,000				
Jobber Account 19A					4,228,000		
Jobber Account 20A					4,716,000		
Jobber Account 21A					4,753,000		
Jobber Account 22A					4,861,000		
Jobber Account 23A					5,408,000		
Jobber Account 24A					5,496,000		
Jobber Account 25A					5,514,000		
Jobber Account 26A					7,081,000		
Jobber Account 27A					7,082,000		
Jobber Account 28A					7,317,000		

TABLE II

Comparison Between the Quantities of Cigarettes, Purchased During the Period October-December, 1952, Inclusive, by 97 Vancouver Retailers Through their Wholesalers, Estimated to have Originated from Manufacturer "B" and the Quantities Purchased During the same Period by the Vancouver Direct Retail and Jobber Accounts of this Manufacturer

Name of Firm	Ref. No. (1)	Estimated Purchases made by regular retailers of cigarettes (2)	Purchases made by direct retail accounts (3)	Number of regular retailers buying larger quantity than figure in column (3) (4)	Purchases made by jobber accounts (5)	Number of direct retailers buying larger quantity than figure in column (5) (6)	Number of regular retailers buying larger quantity than figure in column (5) (7)
Direct Account 1b			2,000	97			
Retailer	1	2,160					
Retailer	16	5,400					
Direct Account 2b			5,500	81			
Retailer	17	5,500					
Retailer	38	8,400					
Direct Account 3b			8,500	59			
Retailer	39	8,780					
Retailer	41	10,120					
Direct Account 4b			10,500	56			
Retailer	42	10,760					
Retailer	60	13,480					
Direct Account 5b			13,500	37			
Retailer	61	13,540					
Retailer	69	14,680					
Direct Account 6b			15,000	28			

Table II, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Retailer	70	15,100					
Retailer	88	21,380					
Direct Account 7b			21,500	9			
Retailer	89	22,920					
Retailer	94	26,600					
Jobber Account 1B					27,000	9	2
Direct Account 8b			27,500	2			
Retailer	95	28,480					
Retailer	97	31,840					
Direct Account 9b			39,000				
Direct Account 10b			43,000				
Direct Account 11b			84,000				
Direct Account 12b			112,500				
Jobber Account 2B					123,600 (Purchases made Dec. 2-31, 1952 only)	4	
Direct Account 13b			129,000				
Jobber Account 3B					157,900	3	
Jobber Account 4B					159,500	3	
Direct Account 14b			165,900 (Purchases made Oct. 1-Dec. 1, 1952, only)				
Direct Account 15b			229,500				
Jobber Account 5B					249,000	1	
Jobber Account 6B					277,500	1	
Jobber Account 7B					349,000	1	

Table II, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Jobber Account 8B					517,500	1	
Jobber Account 9B					543,500	1	
Jobber Account 10B					551,500	1	
Jobber Account 11B					561,500	1	
Jobber Account 12B					606,000	1	
Jobber Account 13B					837,500	1	
Jobber Account 14B					971,000	1	
Direct Account 16b			1,044,000				
Jobber Account 15B					1,175,500		
Jobber Account 16B					1,252,000		
Jobber Account 17B					1,275,000		
Jobber Account 18B					1,392,000		
Jobber Account 19B					1,396,000		
Jobber Account 20B					1,616,500		
Jobber Account 21B					1,986,500		

TABLE III

Comparison Between the Quantities of Cigarettes, Purchased During the Period October-December, 1952, Inclusive, by 97 Vancouver Retailers Through their Wholesalers Estimated to have Originated from Manufacturer "C", and the Quantities Purchased During the same Period by the Vancouver Direct Retail and Jobber Accounts of this Manufacturer

Name of Firm	Ref. No.	Estimated Purchases made by regular retailers of cigarettes	Purchases made by direct retail account	Number of regular retailers buying larger quantity than figure in column (3)	Purchases made by jobber accounts	Number of direct retailers buying larger quantity than figure in column (5)	Number of regular retailers buying larger quantity than figure in column (5)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Retailer	1	5,500					
Retailer	18	14,080					
Direct Account 1c			14,400	79			
Retailer	19	14,400					
Retailer	37	20,120					
Direct Account 2c			21,120	60			
Retailer	38	21,320					
Retailer	53	32,160					
Direct Account 3c			32,280	44			
Retailer	54	32,900					
Retailer	61	34,320					
Direct Account 4c			34,640	36			
Retailer	62	34,700					
Retailer	70	38,280					
Direct Account 5c			38,560	27			
Retailer	71	39,100					
Retailer	72	39,160					

Table III, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Direct Account 6c			39,840	25			
Retailer	73	40,600					
Retailer	78	45,340					
Direct Account 7c			45,560	19			
Retailer	79	45,800					
Retailer	80	46,700					
Direct Account 8c			47,400	17			
Retailer	81	47,520					
Retailer	93	65,280					
Jobber Account 1C					66,400	8	4
Retailer	94	67,400					
Retailer	95	72,180					
Direct Account 9c			75,040	2			
Jobber Account 2C					77,400	7	2
Retailer	96	79,700					
Retailer	97	80,660					
Direct Account 10c			93,600				
Direct Account 11c			98,680				
Direct Account 12c			174,360				
Jobber Account 3C					188,760	4	
Jobber Account 4C					210,840	4	
Direct Account 13c			228,000				
Direct Account 14c			275,760				
Direct Account 15c			278,760				

Table III, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Jobber Account 5C					345,600 (Purchases made Dec. 3-31, 1952, only)	2	
Jobber Account 6C					456,000	2	
Jobber Account 7C					541,000	2	
Jobber Account 8C					604,480	2	
Jobber Account 9C					620,000	2	
Direct Account 16c			658,880 (Purchases made Oct. 1-Dec. 2, 1952, only)				
Jobber Account 10C					887,800	1	
Jobber Account 11C					1,033,240	1	
Jobber Account 12C					1,084,800	1	
Jobber Account 13C					1,200,720	1	
Jobber Account 14C					1,353,600	1	
Direct Account 17c			1,511,040				
Jobber Account 15C					1,656,720		
Jobber Account 16C					1,706,800		
Jobber Account 17C					1,770,070		
Jobber Account 18C					2,128,560		

Table III, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Jobber Account 19C					2,188,720		
Jobber Account 20C					2,576,640		
Jobber Account 21C					2,777,840		
Jobber Account 22C					3,301,080		
Jobber Account 23C					3,535,200		
Jobber Account 24C					3,558,280		
Jobber Account 25C					3,686,600		
Jobber Account 26C					4,048,720		

TABLE IV

Comparison Between the Quantities of Cigarettes, Purchased During the Period October-December, 1952, Inclusive, by 97 Vancouver Retailers Through their Wholesalers, Estimated to have Originated from Manufacturer "D", and the Quantities Purchased During the same Period by the Vancouver Direct Retail and Jobber Accounts of this Manufacturer

Name of Firm	Ref. No.	Estimated Purchases made by regular retailers of cigarettes	Purchases made by direct retail account	Number of regular retailers buying larger quantity than figure in column (3)	Purchases made by jobber accounts	Number of direct retailers buying larger quantity than figure in column (5)
	(1)	(2)	(3)	(4)	(5)	(6)
Retailer	1	9,840				
Retailer	4	14,240				
Direct Account 1d			14,880	93		
Direct Account 2d			15,640	93		
Retailer	5	17,640				
Retailer	14	23,980				
Direct Account 3d			24,000	83		
Retailer	15	24,260				
Retailer	32	34,020				
Direct Account 4d			34,220	65		
Retailer	33	34,500				
Retailer	49	54,360				
Direct Account 5d			54,380	48		
Retailer	50	55,840				
Retailer	62	62,120				
Direct Account 6d			62,900	35		
Retailer	63	63,200				
Retailer	88	96,940				

Table IV, Continued

	(1)	(2)	(3)	(4)	(5)	(6)
Direct Account 7d			100,140	9		
Direct Account 8d			101,560	9		
Retailer	89	103,900				
Retailer	97	144,340				
Jobber Account 1D					181,200	4
Jobber Account 2D					202,340	4
Direct Account 9d			333,140			
Jobber Account 3D					337,200	3
Jobber Account 4D					354,000	3
Direct Account 10d			385,840			
Direct Account 11d			575,800			
Jobber Account 5D					600,000	1
Jobber Account 6D					766,280	1
Jobber Account 7D					1,026,600	1
Jobber Account 8D					1,082,000	1
Jobber Account 9D					1,182,000	1
Jobber Account 10D					1,434,000	1
Jobber Account 11D					1,535,000	1
Jobber Account 12D					1,722,000	1
Jobber Account 13D					1,964,000	1
Direct Account 12d			2,036,220			
Jobber Account 14D					2,306,000	
Jobber Account 15D					2,580,000	
Jobber Account 16D					2,796,000	
Jobber Account 17D					2,964,480	
Jobber Account 18D					3,098,000	

Table IV, Continued

	(1)	(2)	(3)	(4)	(5)	(6)
Jobber Account 19D					3,569,600	
Jobber Account 20D					3,960,000	
Jobber Account 21D					4,176,800	
Jobber Account 22D					4,545,800	
Jobber Account 23D					4,662,400	
Jobber Account 24D					6,016,400	
Jobber Account 25D					6,347,600	
Jobber Account 26D					7,069,000	
Jobber Account 27D					7,282,000	

(4) Wholesalers Recognized by the Major Cigarette Manufacturers in Vancouver, October-December, 1952

The following table lists all purchasers accorded jobber's buying terms according to reports received from the four major manufacturers of cigarettes referred to above. It will be noted that Imperial recognizes the largest number of jobber accounts - 28, followed by Rock City and W. C. Macdonald with 26 each, and by Tuckett with 20. It may be noted that none of the other three manufacturers recognizes a jobber who is not on Imperial's list and none recognizes as many jobbers as does Imperial.

Wholesalers Buying Cigarettes from Tobacco Manufacturers at $16.08 Per M by the Companies Which Recognize Them

	Name of Wholesaler	Recognized by: Imperial Tobacco Sales Co. of Canada Ltd. (1)	Recognized by: The Tuckett Tobacco Co. Ltd. (2)	Recognized by: Rock City Tobacco Co. (1936) Ltd. (3)	Recognized by: W. C. MacDonald Inc., per W. L. MacKenzie & Co. Ltd. (4)
1.	B. C. Drugs Ltd.	x	x	x	x
2.	Union Steamships Ltd.	x		x	x
3.	Canada Railway News Co. Ltd.	x		x	x
4.	Westminster Supply Co. Ltd.	x			
5.	Canadian Pacific Railway Co.	x		x	x
6.	Macdonald's Consolidated Ltd.	x	x	x	x
7.	Overwaitea Ltd.	x	x	x	x
8.	Pacific Coast Wholesale Drugs Ltd.	x	x	x	x
9.	Vancouver Supply Co. Ltd.	x	x	x	x
10.	Canadian National Institute for the Blind	x		x	x
11.	Ferguson & Hart Ltd.	x	x	x	x
12.	The H. Y. Louie Co. Ltd.	x	x	x	x
13.	Wing Wah Company	x	x	x	x
14.	Western Wholesale Drugs Ltd.	x	x	x	x
15.	Heatley Trading Co. Ltd.	x	x	x	x
16.	Norshore Wholesale Ltd.	x		x	x
17.	Con Jones Ltd.	x	x	x	x
18.	W. H. Malkin Co. Ltd.	x	x	x	x
19.	Pacific Coast Tobacco Co. Ltd.	x	x	x	x

Table, Continued

		(1)	(2)	(3)	(4)
20.	Lion's Gate Tobacco Co. Ltd.	x	x	x	x
21.	Bert Henry Ltd.	x	x	x	x
22.	Vancouver Tobacco Co. Ltd.	x	x	x	x
23.	E. A. Morris Ltd.	x	x	x	x
24.	McKenzie & Frazer Ltd.	x			
25.	Hudson's Bay Co.	x	x*	x	x*
26.	Kelly, Douglas & Co. Ltd.	x		x	x
27.	Morton Clarke & Co.	x	x	x	x
28.	Mainland Tobacco Wholesale Ltd.	x	x	x	x
	Totals	28	20	26	26

* Recognize two divisions: retail and wholesale

(5) Direct Retail Accounts Recognized by the Major Cigarette Manufacturers in Vancouver, October-December, 1952

In the following table are listed all purchasers entitled to purchase cigarettes in Vancouver, at the "direct retailer's price" as reported by the four major manufacturers of cigarettes. Imperial and Rock City both recognize 17 direct retailers, Tucket recognized 16, and W. C. Macdonald, 12. There are, in all, 22 purchasers who are entitled to buy at the "direct retailer's price", of whom 20 are recognized by one or both of Imperial and Tuckett. The two direct retailers not recognized by the two Imperial firms are Morden's Drug Co. Ltd., which is recognized by both Rock City and W. C. Macdonald, and World Wide News, which is recognized only by W. C. Macdonald. On the other hand, one or other of the two Imperial firms recognizes three direct retailers not recognized by either Rock City or W. C. Macdonald, viz., White Spot Ltd., Foo Hung Co. Ltd., and K. A. Ray Ltd.

In summary, four direct retailers are recognized by only one manufacturer, five are recognized by two manufacturers, four by three manufacturers, and nine direct retailers are recognized by all four manufacturers. If Imperial and Tuckett are grouped together, four direct retailers are recognized by only one manufacturer, nine by two manufacturers and nine by three manufacturers.

Retailers Buying Cigarettes Directly from Tobacco Manufacturers at $16.59 per M by the Companies Which Recognize Them

	Name of Retailer	Recognized by: Imperial Tobacco Sales Co. of Canada Ltd.	Recognized by: The Tuckett Tobacco Co. Ltd.	Recognized by: Rock City Tobacco Co. (1936) Ltd.	Recognized by: W. C. Macdonald Inc., per W. L. MacKenzie & Co. Ltd.
		(1)	(2)	(3)	(4)
1.	W. F. Smith Ltd.	x		x	
2.	Board of Park Commissioners	x	x	x	x
3.	Theatre Confections Ltd.	x	x		x
4.	Simpson-Sears Ltd.	x	x	x	
5.	Alex. Constantine	x	x	x	x
6.	A. N. Brady	x	x	x	x
7.	The Sugar Bowl	x		x	
8.	L. J. Leitch	x	x	x	x
9.	The University of British Columbia	x	x	x	
10.	White Spot Ltd.	x			
11.	Woodward Stores (W. Vanc.) Ltd.	x		x	
12.	White Lunch Ltd.	x	x	x	x
13.	Louis Toban (Reliable Drug Stores)	x	x	x	x
14.	Aristocratic Restaurant (1947) Ltd.	x	x	x	x
15.	Macdonald's Consolidated Ltd.	x (to Nov. 25. 52	x (to Dec. 2. 52)	x (to Nov. 30. 52)	
16.	United Cigar Stores Ltd.	x	x	x	x

Table, Continued

		(1)	(2)	(3)	(4)
17.	Foo Hung Co. Ltd.		x		
18.	K. A. Ray Ltd.		x		
19.	Clarence Berney		x	x	
20.	Horace S. (Tucker) Rowley	x	x	x	x
21.	Morden's Drug Co. Ltd.			x	x
22.	World Wide News				x
	Totals	17	16	17	12

(6) Recognition of Customers Buying at the "Direct Retailer's Price" and the "Jobber's Cost Price" in the Period, May 1, 1948-May 1, 1953

According to returns received from the four major manufacturers of tobacco referred to in the preceding pages, only two new accounts were added in Vancouver during the five-year period to the list of those qualified to buy cigarettes at the "jobber's cost price". These were Norshore Wholesale Ltd., and Macdonald's Consolidated Ltd. Norshore Wholesale Ltd., was granted jobber's buying terms on June 1, 1948, by Imperial Tobacco Sales Co. of Canada Ltd. Rock City Tobacco Company (1936) Limited included Norshore Wholesale Ltd., in its list of recognized jobbers but showed it as being granted this status before the beginning of the five-year period under review. W. C. Macdonald Inc. reported Norshore Wholesale Ltd., as one of its jobber accounts but gave no indication of when it was granted that status. The Tuckett Tobacco Co. Limited did not list this wholesale firm as a jobber account.

Macdonald's Consolidated Ltd., was granted jobber's buying terms on November 26, 1952, by the Imperial Tobacco Sales Co. of Canada Ltd., to be followed on December 1, 1952, by Rock City Tobacco Co. (1936) Ltd., and on December 2, 1952, by The Tuckett Tobacco Co. Ltd. W. C. Macdonald Inc. reported all sales to Macdonald's Consolidated Ltd., for the period October-December, 1952 (inclusive) as being made at the "jobber's cost price", although no specific date for the granting of this buying status was listed.

Altogether, seven purchasers were reported as being added to the list of those entitled to buy at the "direct retailer's price" during the period May 1, 1948-May 1, 1953. The following table lists the firms added and the dates on which the various manufacturers extended to each the new buying terms, if within the past five years. Accounts which are included in this list but which were apparently recognized before May 1, 1948, by the manufacturer in question are marked "R".

Name of Qualifying Firm	Date Recognized by Imperial	Date Recognized by Rock City	Date recognized by Macdonald (per W. L. MacKenzie & Co. Ltd.)	Date Recognized by Tuckett
Simpson-Sears Ltd. (formerly The Robert Simpson Pacific Ltd.)	May 31, 1950	June 5, 1952	-	July 8, 1952
Theatre Confections Ltd.	July 13, 1950	-	"1951"	July 19, 1950
White Lunch Ltd.	Oct. 26, 1950	Aug. 29, 1950	"1951"	Oct. 18, 1950
Woodward Stores (Capilano) Ltd.	R	Aug. 24, 1950	-	-
Clarency Berney	-	R	-	Nov. 22, 1948
Albert N. Brady	R	R	R	Oct. 1, 1950
University of British Columbia, Commissary	R	R	-	Sept. 17, 1948

The above data do not establish any single firm as the leader in granting recognition to applicants seeking to buy cigarettes at the "direct retailer's price" or the "jobber's cost price". It should be noted that none of the four manufacturers recognized all seven of the direct retailers added during the period in question. Imperial, Rock City and Tuckett each recognized six of the seven direct retailers added, while W. C. Macdonald recognized only three of this number. Imperial and Tuckett together, however, covered all seven of the added direct retail accounts.

For those three purchasers which have been granted recognition since 1948 by the majority of manufacturers as direct retail accounts (i.e., Simpson-Sears Ltd., Theatre Confections Ltd., and White Lunch Ltd.), it appears that the Imperial Tobacco Sales Co. of Canada Ltd., was the leader in granting direct retailer terms to the first two and that Rock City Tobacco Company (1936) Limited was the first manufacturer to grant such terms to White Lunch Ltd. Since the remaining direct retailers in this group were accorded their buying status by one or more manufacturers before May 1, 1948, it is impossible to say which manufacturer was first to grant recognition.

It appears that W. C. Macdonald Inc., first granted jobber buying terms to Macdonald's Consolidated Ltd. It is not clear whether Rock City or W. C. Macdonald Inc., was the first to accord Norshore Wholesale Ltd., such terms.

D. Three Individual Cases Relating to the Effectiveness of Cigarette Price Reductions to Increase Sales

(1) A Local Grocery Chain in Ontario

A complaint was made to the Director that this grocery chain was using cigarettes as a "loss-leader" item and that the result result was a significant reduction in the sales of competing retailers.

This chain buys cigarettes at the "jobber's selling price" subject to a discount, apparently arrived at on a bargaining basis, from the wholesaler. This discount stood at 1 1/2 per cent on January 1, 1952, and gradually increased to 2 1/2 per cent on February 24, 1953, at which time cigarette purchases were divided between two suppliers, one of whom granted the aforementioned discount of 2 1/2 per cent (i.e., about 73/100 of a cent per package) and the other a discount of 3 per cent (i.e., about 87/100 of a cent per package).

This chain's selling price for standard Canadian cigarettes has shown, over the past year-and-a-half, a widening departure from the "regular" retail price.

	Regular Price (cents)	Chain's Price (cents)
January 1, 1952	42	40
April 10, 1952	39	35
February 24, 1953	33	29

It is difficult to estimate the effect of this price differential on cigarette sales since the figures for the period January to April, 1952, are not representative, as explained in the following statement from a letter of May 30, 1953, to the Director:

> "During the period of January to April, 1952, cigarettes were sold only through a cigarette machine and due to inefficiency of the machine, both as to mechanical and merchandising ability, sales were very light. Because of this no separate figures for cigarette sales were maintained . . .
>
> Due to the lack of sales figures for 1952, we have substituted figures for cigarette purchases for that period . . ."

The information on both cigarette and total sales is, nevertheless, of considerable interest.

Cigarette Sales and Total Store Sales

	Cigarettes		Total	
January, 1952	-		$62,306.54	
January, 1953		$7,930.15		$96,415.44
February, 1952	-		70,721.12	
February, 1953		10,589.69		99,886.77
March, 1952	-		77,255.13	
March, 1953		19,858.59		118,569.12
April, 1952	$4,549.85*		73,904.08	
April, 1953		17,094.13		111,592.69

* Total purchases for the four-month period January-April, 1952 (inclusive).

Cigarette sales in 1953 not only showed a very large increase over the 1952 figures but they rose from about 8 per cent of total sales in January, 1953, to about 16 per cent in March, 1953. The rise in total sales in 1953 compared month for month with 1952 varied between approximately $30,000 and $40,000 per month, or an increase of roughly 50 per cent in 1953 over sales for comparable months in 1952. In January, 1953, the increase in cigarette sales accounted for about one-quarter of the increase in total sales; in February, for about one-third; and, in March and April, 1953, increases in cigarette sales accounted for roughly one-half of the increase in total sales. In other words, as sales of cigarettes increased, sales of other products failed to show a similar proportionate rise.

(2) An Eastern Canadian Grocery Chain

Up to December 2, 1952, this chain purchased their cigarettes at the "direct retailer's price". However, on December 2, 1952, they were accorded the "jobber's cost price" and have since that date purchased cigarettes at this lower price. The prices at which this chain purchased cigarettes through the period January 1, 1952, to April 10, 1953, are as follows:

January 2, 1952 -	$18.09 per M
April 10, 1952 -	16.59 " "
December 2, 1952 -	16.08 " "
February 23, 1953 -	13.48 " "

This chain's selling prices for cigarettes during the same period were as follows:

	Quebec Stores (Excl. prov. tax)	Ontario Stores	"Regular" Price
	(cents)	(cents)	(cents)
January 2, 1952	41	41	42
April 10, 1952	39	39	39
January 8, 1953	36	36	39
February 23, 1953	33	33	33
March 2, 1953	31	30	33

In a letter of April 28, 1953, to the Director, the Grocery Merchandising Manager explained certain departures from this general price pattern.

> "During this period there were isolated instances, in a few localities, where Cigarettes were sold below the above prices. This was authorized for individual stores at various times, to meet specific local competitive situations. When this competitive situation cleared in these instances our selling price was adjusted accordingly. These being of a temporary nature we do not keep a record of the dates of these declines and increases."

Comparative figures for sales of cigarettes and for total sales for the first three months of 1952 and 1953 are set out in the following table:

Cigarette Sales and Total Store Sales

	Cigarettes (Quebec Provincial Tax Included)		Total	
January, 1952	$21,200		$1,572,165	
January, 1953		$67,921		$1,993,695
February, 1952	21,633		1,636,080	
February, 1953		83,083		2,165,429
March, 1952	18,221		1,669,871	
March, 1953		88,221		2,186,567

While information as to additional outlets, etc. is lacking, the following comments are nevertheless valid. While total sales were rising from January to March, 1953 over the same period in 1952, from a 25 per cent increase in January to a 30 per cent increase in March, cigarette sales were increasing more noticeably. The increase for January, 1953, when a 3 cent reduction below the "regular" price was adopted was over 200 per cent and by March it was almost 400 per cent. During the three months of 1952 for which we have information, cigarette sales accounted for between 1.09 and 1.35 per cent of total sales; for the

three months of 1953, cigarettes had increased greatly in importance, accounting for between 3.41 and 4.03 per cent of total sales.

(3) <u>An Ontario Drug Store</u>

This drug store purchases cigarettes at the "jobber's selling price". It was unable to give the precise dates on which changes in the selling price of cigarettes were made but the following spreads between the "regular" selling price and the drug store's price were in effect: in the period after January 1, 1953, when the "regular" price was 39 cents, the drug store's price was 36 cents; when the "regular" price was 33 cents, the drug store's price was first set at 3 packages for 95 cents, and later this price was reduced to 30 cents per package.

Figures for cigarette sales and total sales are set out in the following table:

Cigarette Sales and Total Store Sales

	Cigarette		Total	
January, 1952	$1,050		$10,850	
January, 1953		$2,060		$13,360
February, 1952	1,050		10,100	
February, 1953		2,600		12,630
March, 1952	950		10,140	
March, 1953		4,750		15,680

Cigarette sales during the first three months of 1952 ran at about $1,000 per month. By January, 1953, sales had approximately doubled and by March, 1953, had reached a level approximately five times that of March, 1952. Total sales in January, 1953, were roughly $2,500 above sales in January, 1952, and about $1,000 of this increase was in cigarettes. In February, 1953, total sales were again about $2,500 more than sales in February, 1952, and cigarettes accounted for about $1,500 of this increase. In March, 1953, total sales were up sharply by about $5,500 over the comparable period in 1952, and of this increase about $3,800 was due to the rise in cigarette sales. For the three months in 1952, cigarette sales accounted for from 9.37 to 10.39 per cent of total sales, as compared with from 15.42 to 30.29 per cent of total sales in 1953. These percentages compare with an average of 12.0 per cent of drug store sales in cigars, cigarettes and tobaccos according to the 1941 Census of Merchandising (see page 209).

E. The Attempt by Les Magasins "Régal" Stores, Inc., Three Rivers, P. Q., to Obtain Better Buying Terms for Cigarettes

Les Magasins "Régal" Stores, Inc., is a co-operative wholesale organization making purchases on behalf of twenty-seven member retailers; this organization also sells at wholesale to non-members. The total sales of the Three Rivers group of co-operating retailers was estimated at about $2,000,000 per annum. In 1952, sales of cigarettes by this group were approximately 120,000 per week. There are other "Régal" buying groups in Quebec, Montreal and St. Jerome. The Three Rivers group, which has been functioning for seven years, operates a modern warehouse.

At an early stage in the organization of Les Magasins "Régal" a request was apparently made to the two leading manufacturers of tobacco products in Canada, the Imperial Tobacco Company of Canada Limited and W. C. Macdonald Inc., to grant this co-operative buying group jobber buying terms. This request was refused by both companies. The members of Les Magasins "Régal" continued to buy cigarettes individually at the "jobber's selling price". Reference is made to this early refusal in the following letter sent by the President of Les Magasins "Régal" to the above tobacco companies on November 19, 1951, requesting recognition as wholesalers of tobacco products:

> "Il y a quelgues années déjà, nous vous écrivions pour vous demander de bien vouloir nous accepter comme grossiste en tabac, pour la région de Trois-Rivières, afin de pouvoir remplir les demandes d'achats des nombreux marchands avec lesquels nous faisions affaires; nous recevions alors un refus de votre part à l'effet que nous n'étions pas assez nombreux, et que l'espace nous manquait.
>
> Nous avons fait construire cet été, un vaste entrepôt qui contient nos magasins et bureaux, d'une superficie de 153 pieds par 75, et nous faisons affaires avec tous les marchands qui se presentent chez nous.
>
> Notre chiffre d'affaires atteindra cette année un total de $800,000. en produits alimentaires seulement, c'est donc vous dire, que nous avons fait de notre organisation un succès de tout premier ordre.
>
> Nous sommes prêts à accepter l'installation d'une annonce sur notre entrepôt, ce qui serait de nature a nous aider a augmenter nos ventes chez vous. Nous revenons à la charge cette année encore, et nous vous demandons de bien vouloir accepter comme grossiste en tabac; nous acceptons d'avance vos conditions de paiement et de vente, et, nous espérons recevoir avant longtemps une réponse favorable.

Bien à vous,

Les Magasins Régal Stores Inc.

Le president,

Gérard Bourget."

Both companies in reply regretted that they were unable to grant the request.

Again, on September 5, 1952, letters were sent to both companies by Les Magasins "Régal" requesting recognition as wholesalers. The Imperial Tobacco Sales Company of Canada, Limited, replied on September 19, 1952, stating that there had been no change in the situation. H. C. Fortier Limitée, replying as selling agents for W. C. Macdonald Inc., also indicated in a letter of September 8, 1952, that they were unable to grant the request, and explained in somewhat greater detail the reason for this decision.

> "En réponse à votre lettre du 5 septembre, nous regrettons de vous informer qu'il n'y a aucun changement dans notre politique d'ajouter d'autres noms à notre liste actuelle de Marchands de Gros.
>
> Vous êtes à même de constater que nous ne pouvons pas produire suffisamment pour remplir les commandes de nos clients et nous ne pouvons pas songer à ouvrir de nouveaux comptes tant et aussi longtemps que notre position ne sera pas améliorée.
>
> Vous tout devoues,
>
> H. C. Fortier Limitée,
>
> Jos. Lagall [?]
> Sec.-Trés."

On April 23, 1953, George Daigle, Manager of Les Magains "Régal" in Three Rivers, wrote the Imperial Tobacco Sales Company of Canada, Limited, requesting confirmation of an earlier telephone conversation in which A. Simard apparently again stated the refusal of his company to grant jobber buying terms to Les Magasins "Régal".

Replying on April 29, 1953, Mr. Simard reiterated his earlier refusals and explained the factors responsible for his company's stand as follows:

> "En réponse à votre lettre du 23 avril, et comme je vous l'ai déjà expliqué, nous avons serieusement étudié la situation et somme d'avis que le nombre actuel des distributeurs de nos

produits répond amplement aux besoins des marchands de Trois-Rivières et des environs. Si nous acceptions toutes le demandes des gens intéressés a devenir distributeur, un grand nombre d'entre eux gagneraient à peine de quoi vivre.

Votre cas est semblable à beaucoup d'autres et vous comprenez sans peine qu'il est peu pratique et impossible pour nous d'accueillir favorablement chaque demande."

In the meantime, J. A. Mongrain, Mayor of Three Rivers, had undertaken to support the requests of Les Magasins "Régal" for recognition as wholesalers of tobacco products. On April 29, 1953, Mayor Mongrain wrote in some detail to E. F. Erzinger, Sales Manager, Imperial Tobacco Sales Company of Canada, Limited, as to the factors that, in his view, lent support to the request of Les Magasins "Régal".

"I thank you for your letter of April the 27th and I understand very well that there might be very sound reasons for not selling too many wholesalers in a city.

I think though, that the case of 'Les Magasins Régal Inc. de Trois-Rivières' is quite different, since they are a group of independent grocers who have pooled their efforts to pay better prices and thus be in a position to help their customers benefit from lower prices.

In my humble opinion, they deserve the consideration they have been given by several manufacturers and they have given proof of their sound business sense by the tremendous success they have had up to now, either in volume of business they have been transacting, or by the great number of customers they serve regularly.

I also think it is very bad publicity for the Imperial Tobacco when they have to tell their thousands of customers that they cannot buy direct from you and thus are not in a position to give them the service or the prices some others give. Little by little it creates a feeling that Imperial Tobacco would like to discriminate between small independent grocers pooling their efforts in big chain stores."

In reply, Mr. Erzinger in a letter of May 13, 1953, presented the views of his company on granting recognition to new wholesalers.

"On my return this week from a trip through the western Provinces, your letter of April 29th was brought to my attention. I have carefully examined the matter and, while I do appreciate the viewpoint which you express, I would like to present to you some of the difficulties of this request as we see them.

For a great many years it has been the general practice in the tobacco industry of distributing their products through wholesalers who service the more than 90,000 retailers who, in turn, supply the consumer. It is our firm conviction that this is the cheapest and most efficient way of making our goods available to the public.

Should a group of independent grocers who pool their efforts be able to purchase at wholesale prices, I think you will agree that a chain reaction of unpredictable proportion may well be started across the country and cause general confusion in the trade. If tobacconists, druggists, confectioners and others were to form similar groups, I do not believe that they could justly be turned down if organizations, such as 'Les Magasins Régal Inc. de Trois Rivières', were buying at wholesale prices. Should this situation become general, the very existence of the wholesaler as such would be in jeopardy.

Moreover, the complex distribution problems that would arise if such a situation existed would result in considerable additional freight and handling costs which would be such as to erase any price advantages that might otherwise be gained by the group. Indeed these costs ultimately might well be sufficiently high to operate to the disadvantage of the consumer."

It will be noted that emphasis is placed by Mr. Erzinger upon the importance of the wholesaler in the distribution of tobacco products and upon the added transportation and handling costs that would result from the recognition of a large number of small jobber accounts. It may be observed, parenthetically, that the latter difficulty could be readily overcome by placing quantity buying limits at such levels that only those groups whose businesses reached reasonably wholesale dimensions could qualify for jobber prices. Reference should also be made to the portion of this section dealing with the quantities of cigarettes bought by various categories of purchasers in the city of Vancouver.

As these negotiations continued into the closing months of 1952, the former rigidity in cigarette selling prices at the consumer level began to break down. The suggested selling price of 43 cents (39 cents plus 4 cents provincial tax) was reduced by one chain store in November, 1952, to 39 cents. The more common price among chain stores in Three Rivers after the turn of the year was apparently 40 cents (including provincial tax of 4 cents). The retailer purchasing cigarettes at the "jobber's selling price" paid 34.6 cents per package plus 4 cents tax; whilst the retailer buying at the "jobber's cost price" paid 32.16 cents per package plus 4 cents tax. At 40 cents, this left a margin of 1.4 cents per package for the former buyer and 3.84 cents per package for the latter.

After the reduction in excise tax and in the manufacturer's price, the "jobber's buying price" on February 23, 1953, was 26.96 cents per package, and the "jobber's selling price" was 29.1 cents per package. There, was, in addition, the provincial tax of 10 per cent, i.e., 4 cents per package,* and the suggested selling price was 33 cents plus tax.

Shortly after these reduced buying prices became effective, the major chain stores in Three Rivers reduced the selling price of cigarettes to 35 cents (including tax), according to information provided the Director. At this price, the margin available to the retailer buying cigarettes at the "jobber's selling price" was 1.9 cents per package, and to the retailer buying cigarettes at the "jobber's cost price" was 4.04 cents per package.

In March, 1953, Les Magasins "Régal", in response to complaints from their customers, reduced the price of cigarettes to the chain-store level of 35 cents. It has been reported to the Director that cigarettes are currently being offered in Three Rivers by chain stores, buying at the "jobber's cost price", as a "week-end special" at three packages for $1.00, including tax, virtually the cost price of retailers buying at the "jobber's selling price".

According to information received by the Director from three of the five wholesalers in Three Rivers selling cigarettes, the "jobber's selling price" of $14.54 per thousand had not been reduced. One wholesaler did, however, report that "certain wholesalers" were selling cigarettes at $14.54 per thousand "less three or four per cent". Cigarette sales of the wholesalers in Three Rivers who reported to the Director showed no significant decline during the first four months of 1953 as compared with the first four months of 1952.

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* The Tobacco Tax Act of the Province of Quebec provides for a tax on all tobacco products of 10 per centum of the retail price. Section 10 of the Act provides that "The tax imposed by this act shall be calculated separately on every package, and any fraction of a cent shall be computed as one cent".

ANNEX I

QUESTIONNAIRE RE SALES OF CIGARETTES AND RELATED PRODUCTS - WINNIPEG

1. Name of Store

2. Address

3. Classification of store:

(a) Grocery	( )	(e) Tobacco	( )
(b) Grocery & Meat	( )	(f) Restaurant	( )
(c) Confectionery	( )	(g) Other	( )
(d) Drugs	( )		

4. Number of employees

5. Annual volume of total sales for 1952 (approximate): $

6. Annual volume of cigarette sales for 1952 (approximate): $

7. List selling prices for standard Canadian cigarettes (per package of 20) from January 1, 1953 to date:

Date:	Price:
Date:	Price:
Date:	Price:
Date:	Price:

8. List buying prices for standard Canadian cigarettes (per package of 20) from January 1, 1953 to date:

Date:	Price:
Date:	Price:
Date:	Price:
Date:	Price:

9. Sales of cigarettes for equal periods of time preceding and following the marked reduction in price.

   (a) Before price reduction
   Period: From February 1 to February 28 (inclusive)
   Number of days store open in this period:
   Sales: $

   (b) Immediately after price reduction
   Period: From March 1 to March 31 (inclusive)
   Number of days store open in this period:
   Sales: $

Note any other evidence of lessening of business on back of this report.

(c) Later period for comparison
Period: From April 1 to April 30 (inclusive)
Number of days store open in this period:
Sales: $

10. Total sales of the store in all lines carried for equal periods of time preceding and following the marked reduction in the price of cigarettes:

(a) Before price reduction
Period: From February 1 to February 28 (inclusive)
Sales: $

(b) Immediately after price reduction
Period: From March 1 to March 31 (inclusive)
Sales: $

Note any other evidence of lessening of business on back of this report.

(c) Later period for comparison
Period: From April 1 to April 30 (inclusive)
Sales: $

11. List mark-ups taken on five items in other lines that are closely comparable with cigarettes as to shelf space, handling costs, etc.:

Item 1	Price:	Mark-up on selling price:
Item 2	Price:	Mark-up on selling price:
Item 3	Price:	Mark-up on selling price:
Item 4	Price:	Mark-up on selling price:
Item 5	Price:	Mark-up on selling price:

ANNEX II

QUESTIONNAIRE RE SALES OF CIGARETTES AND RELATED PRODUCTS - VANCOUVER

1. Name of Store

2. Address

3. Classification of store:

(a)	Grocery	( )	(e)	Tobacco	( )
(b)	Grocery & Meat	( )	(f)	Restaurant	( )
(c)	Confectionery	( )	(g)	Other	( )
(d)	Drug	( )			

4. Number of employees

5. Annual volume of total sales for 1952 (approximate) $

6. Annual volume of cigarette sales for 1952 (approximate) $

7. List selling prices for standard Canadian cigarettes (per package of 20) from January 1, 1953, to date:
   Date: Price:
   Date: Price:
   Date: Price:
   Date: Price:

8. List buying prices for standard Canadian cigarettes (per package of 20) from January 1, 1953, to date:
   Date: Price:
   Date: Price:
   Date: Price:
   Date: Price:

9. Sales of cigarettes for equal periods of time preceding and following the marked reduction in price.
   (a) Before price reduction
   Period: From March 2 to March 14 (inclusive)
   Number of days store open in this period:
   Sales: $

   (b) Immediately after price reduction
   Period: From March 23 to April 4 (inclusive)
   Number of days store open in this period:
   Sales: $

Note any other evidence of lessening of business on back of this report.

(c) Later period for comparison
Period: From April 13 to April 25 (inclusive)
Number of days store open in this period:
Sales: $

10. Total sales of the store in all lines carried for equal periods of time preceding and following the marked reduction in the price of cigarettes:

(a) Before price reduction
Period: From March 2 to March 14 (inclusive)
Sales: $

(b) Immediately after price reduction
Period: From March 23 to April 4 (inclusive)
Sales: $

Note any other evidence of lessening of business on back of this report.

(c) Later period for comparison
Period: From April 13 to April 25 (inclusive)
Sales: $

11. List mark-ups taken on five items in other lines that are closely comparable with cigarettes as to shelf-space, handling costs, etc:

Item 1	Price:	Mark-up on selling price
Item 2	Price:	Mark-up on selling price
Item 3	Price:	Mark-up on selling price
Item 4	Price:	Mark-up on selling price
Item 5	Price:	Mark-up on selling price

XI. "LOSS LEADERS" AND THE PRICES CHARGED ON OTHER ITEMS IN THE SELLER'S STOCK

In the statements of views on various aspects of "loss-leader" selling received by the Director, it was the opinion of certain groups that "loss leaders" were a deceptive sales device in as much as the customer was lured into the store by the low special prices and then was charged higher prices than prevailed elsewhere on other items that she purchased. By such "price juggling", it was submitted, the consumer was, in fact, charged higher prices for her over-all purchases than she would have obtained by shopping in stores that did not employ "leaders" and "specials". Hence, it is argued, prices in those stores such as chains and others that make a practice of advertising "leaders" and "specials" are higher than prices in stores that do not employ such means of attracting customers. The appearance of lower prices in chain stores and in other outlets using "leaders" and "specials" is illusory and is created, according to this view, only by the extensive advertising of a few price-reduced items.

If this argument were valid it would obviously constitute a strong criticism of the use of "loss leaders".

In order to explore as fully as possible the basis for this view, with the statistical material available in the Director's files, a comparison was undertaken of the prices charged by a group of chain stores and by the grocery departments of department stores, all of which employed "leaders" and "specials" more or less frequently in their advertising, with the prices charged by a group of independent grocers for the same items. The independents chosen for this comparison were located in the areas in which the chain stores and grocery departments of department stores operated.

The grocery-store items were selected, in connection with another survey undertaken by the Director, by a group of retailers as being representative grocery-store products and the prices were the regular prices in effect in the various retail outlets at approximately the same time.

In the following tables an average price was calculated for each item offered by the chain stores (and the grocery departments of department stores) and by the independent grocers. The items were grouped into nineteen categories and for each category the number of items for which the average independent selling price was equal to or less than the average chain store price is indicated. The aggregate of the average selling prices for all the items in each category of grocery products for each of the two classes of sellers was then computed and the chain-store aggregate was expressed as a percentage of the independent-store aggregate. A

further aggregate for the nineteen categories of grocery products for each of the two classes of sellers was then computed and the chain-store aggregate was expressed as a percentage of the independent-store aggregate.

A. Comparative Prices in British Columbia and the Prairie Provinces

The following table, comparing average chain-store prices with average independent-store prices for British Columbia and the Prairie Provinces, is in large degree self-explanatory. In the "Baking Products" category, for example, there were twenty-six items for which average chain-store prices and average independent-store prices were obtained; the average independent-store price was below the average chain-store price for one item out of the twenty-six; and the aggregate of the average chain-store prices for the twenty-six items was 92.6 per cent of the aggregate of the average independent-store prices for the same twenty-six items. The other product categories can be read in the same manner. It will be noted that the aggregates for the nineteen categories of grocery products show that average chain-store prices for the group of products involved were 94.7 per cent of average independent-store prices, and that out of 229 items average independent-store prices were equal to average chain-store prices in nine cases and below them in sixteen cases. The comparisons were based on price data from eight chain stores and grocery departments of department stores and eighteen independent stores, although prices on each of the 229 items were not obtained in all cases from each of the retail outlets.

Chain and Independent Store Selling Prices - British Columbia and the Prairie Provinces

Product Category	Number of items in group	Number of items in which average independent price is equal to or below average chain price (1) Below	(2) Equal to	Aggregate of average chain prices as percentage of aggregate of average independent prices
Baking Products	26	1	-	92.6
Beverages	22	1	-	95.6
Biscuits	11	2	-	93.6
Desserts	6	-	-	92.8
Cereals	15	-	-	90.9
Infant Foods	4	-	-	98.5
Cleansers	20	2	-	95.9
Dairy Products	7	-	-	89.6
Detergents and Soaps	9	1	-	95.8
Drug Products and Toilet Items	19	2	2	94.6
Electric Light Bulbs	7	3	1	100.5
Miscellaneous Canned Goods	18	-	1	92.6
Soups, Canned and Packaged	11	-	-	94.3
Pickles and Condiments	13	2	1	95.2
Frozen Foods	6	2	-	98.3
Macaroni and Spaghetti	9	-	-	91.0
Fruits, Jams and Marmalades	11	-	-	89.1
Tobacco	7	-	4	99.8
Paper Products	8	-	-	92.5
Total	229	16	9	

Aggregate of average chain-store prices for 229 items as a percentage of the aggregate of average independent-store prices for the same items: 94.7 per cent.

B. Comparative Prices in Ontario

The table that follows provides a comparison, along the same lines as the preceding table, for Ontario. The comparisons in this case are based on price data from four chain stores and eighteen independent stores, although again prices on each of the 174 items were not obtained in all cases from each of the retail outlets. By way of summary, it will be noted that out of 184 items, average

independent-store prices were equal to average chain-store prices in thirteen cases and below them in twenty-one cases, and that the aggregates for the nineteen categories of grocery products show that average chain-store prices for the 174 items were 95.9 per cent of average independent-store prices.

Chain and Independent Store Selling Prices - Ontario

Product Category	Number of items in group	Number of items in which average independent price is equal to or below average chain price		Aggregate of average chain prices as percentage of aggregate of average independent prices
		(1) Below	(2) Equal to	
Baking Products	23	1	1	95.0
Beverages	16	3	1	95.7
Biscuits	10	2	1	98.3
Desserts	4	-	-	93.6
Cereals	13	-	-	94.2
Infant Foods	4	-	-	98.5
Cleansers	18	5	2	98.7
Dairy Products	5	-	-	93.1
Detergents and Soaps	10	1	-	95.6
Drug Products and Toilet Items	13	3	3	98.8
Electric Light Bulbs	3	-	2	98.2
Miscellaneous Canned Goods	15	-	-	90.5
Soups, Canned and Packaged	11	-	1	94.0
Pickles and Condiments	9	-	1	91.1
Macaroni and Spaghetti	7	2	-	93.2
Fruits, Jams and Marmalades	5	-	-	91.1
Tobacco	2	1	1	102.1
Paper Products	6	3	-	99.3
Total	174	21	13	

Aggregate of average chain-store prices for 174 items as a percentage of the aggregate of average independent-store prices for the same items: 95.9 per cent.

C. Comparative Prices in Quebec

The following table provides a comparison, along the same lines as the two preceding tables, for Quebec. The comparisons in this case are based on price data from two chain stores and seventeen independent stores, although prices on each of the 115 items were not obtained in all cases from each of the retail outlets. In summary, out of 115 items, average independent-store prices were equal to average chain-store prices in three cases and below them in five cases, and the aggregates for the eighteen categories of grocery products show that average chain-store prices for the 115 items were 92.6 per cent of average independent-store prices.

Chain and Independent Store Selling Prices - Quebec

Product Category	Number of items in group	Number of items in which average independent price is equal to or below average chain price		Aggregate of average chain prices as percentage of aggregate of average independent prices
		(1) Below	(2) Equal to	
Baking Products	20	-	-	90.6
Beverages	13	1	-	93.3
Bread and Biscuits	9	1	1	94.7
Desserts	4	-	-	91.5
Cereals	9	-	-	88.5
Infant Foods	2	-	-	94.1
Cleansers	5	-	-	95.2
Dairy Products	2	-	-	86.4
Detergents and Soaps	4	-	-	88.7
Drug Products and Toilet Items	4	1	-	100.5
Electric Light Bulbs	1	-	1	100.0
Miscellaneous Canned Goods	9	-	-	87.4
Soups, Canned and Packaged	12	-	-	91.2
Pickles and Condiments	5	-	-	88.1
Macaroni and Spaghetti	7	-	1	90.7
Fruits, Jams and Marmalades	3	-	-	87.3
Tobacco	2	1	1	100.6
Paper Products	4	-	-	91.5
Total	115	4	4	

Aggregate of average chain-store prices for 115 items as a percentage of the aggregate of average independent-store prices for the same items: 92.6 per cent.

These data do not appear to support the view set out at the beginning of this section, that those stores advertising "leaders" charge higher prices on other items in their stock to compensate for the losses that, it was claimed, were suffered on the "leaders". At the same time, it does not follow from these data that prices charged by independent stores which may rarely use "leaders" are necessarily higher if allowance is made for the additional services provided by many such retailers. It is common knowledge that many independent retailers provide clerk service, telephone and delivery service, that they frequently carry "charge accounts", and in other ways provide services for the consumer which increase costs and, hence, prices. For the consumer desiring such services, the prices in independent stores may be more attractive than the prices in the self-service, cash-and-carry outlets which appear from this survey of grocery prices to range approximately four to seven per cent below prices in independent stores.

XII. THE USE OF COUPONS AND PREMIUMS IN RETAIL DISTRIBUTION

A number of representations were received by the Director to the effect that the use of coupons and premiums in retail trade should also be included as part of the survey on "loss-leader" selling. Complaints about the coupon practices that were considered to be detrimental fell into two broad categories. In one group were those coupons which entitled a buyer to, say, a reduction of 50 cents on a $5.00 purchase; the distinguishing feature of such offers being that they applied only to items found in the retailer's customary array of goods. In the other group were those coupons which entitled a buyer, after purchasing a given product or making a purchase of a minimum amount, to purchase a "different" product at a discount from the "regular" retail price. An example of this second category of coupon sale might be the purchase of a tube of tooth paste with which a coupon is obtained that entitles the purchaser to a reduction of, say, $2.00 from the "regular" price of an electric iron. Or, with the purchase of, say, a $10.00 grocery order in the first three days of the week, the customer is entitled to buy a piece of kitchen ware for considerably less than its "regular" price. The purpose in this case was apparently to spread the shopping more evenly over the week and thus contribute to some reduction in costs. The distinguishing feature of this second category of coupon or premium is that the reduced price applies to an article outside the usual lines of goods carried (or manufactured) by the firm issuing the coupon or giving the premium.

The first type of coupon referred to above was represented to have effects similar to "loss-leader" selling. The retailer that used such coupons or offered a reduced price on a specific item, provided a purchase of a minimum amount were made, was considered to be offering, in effect, price reductions below the "regular" level. Not all such coupon offers were made on the same basis, however. In some cases the coupons and premiums were used for only a limited period of time to attract customers to a newly opened store and to acquaint them with its facilities. In other cases it may be that the use of coupons was a substitute for "specials" which apply to specific items. The advertised price reduction on an individual item may, under current consumer buying practices, be considered less effective in attracting customers than the larger reduction offered on a purchase of some minimum amount. From the point of view of the retailer it is also not improbable that the requirement of a minimum purchase of, say, $5.00 may make possible savings analogous to those associated with quantity discounts by manufacturers.

The second type of coupon offer referred to above was criticized particularly because it was said to involve the invasion of

a retail field outside that of the retailer offering the coupon or outside that in which the manufacturer's product was regularly sold. For example, it was stated that certain coupons or discounts were being offered by distributors or manufacturers of grocery products on items that were regular hardware lines. This was said to have a two-fold effect: it reduced the sale of such items by hardware dealers and, because of the size of the price reductions offered, it led customers to believe that they were being over-charged by the hardware dealer.

It was submitted that the same result could be obtained by offering a reduction on the price of an item within the retailer's usual array of goods and that it was unfair, for the purpose of increasing sales, to trespass on the products sold by another class of retailer. Aside from the difficulty of allocating particular items to particular retail trades in a distributive system in which the allocation of articles is continuously changing, these submissions also raise the question of how far legislation could go in attempting to regulate such practices without opening the door to a very far reaching interference that would be incompatible with a free enterprice system. In any case, the essential aspects of these practices extend beyond and in many respects differ from "loss-leader" selling. It has, therefore, been considered desirable to exclude them from (and hence avoid confusing them with) this inquiry into "loss-leader" selling.

XIII. STATE LEGISLATION PROHIBITING SALES BELOW "COST" IN THE UNITED STATES

The type of legislation which has been expressly designed to control price cutting and to supplement the resale price maintenance laws has been the legislation embodying generalized prohibitions against sales below cost enacted by a number of the States.

The general purpose of this type of legislation has been described as follows:

> "Although different in name and in several provisions, all of the acts are designed chiefly for the purpose of prohibiting 'loss leader sales.' These sales can best be explained by the use of a familiar example: A store which handles a wide variety of merchandise, to induce customers into the store, advertises and sells a well-known commodity below cost. The theory is that while the customer is in the store to purchase the lure, other items will attact his attention and the lost profit will be made up and additional profit made from other sales at that time or later. Most of the statutes also prohibit the similar practice of giving a premium with each sale of a particular product if the combined cost to the seller of the premium and the article sold exceeds the retail selling price. The statutes are adopted primarily to prevent injury to the competitor of the seller below cost. However, incidental protection is afforded the consumer who might improvidently buy other articles in pursuit of the 'loss leader' or premium. Also, the good will of the producer of branded goods is protected by a prohibition against his product being sold at a normal profit by some retailers and a ridiculously low price below cost by others in the same community." *
>
> (p. 201)

Prohibitions against general price cutting in state legislation are by no means recent developments. As long ago as 1902, South Carolina prohibited giving away goods or their sale below cost of manufacture "with intent or purpose of driving out competition, or for the purpose of financially injuring competitors", (E. T. Grether, Price Control Under Fair Trade Legislation, 1939, p. 36). Other states had similar legislation in the first decade of the century but it was the conditions prevailing during the depression of the 1930's

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* "Further Developments in the Field of Statutory Bans Against Selling Below Cost", Virginia Law Review, Vol. 34, No. 2, Feb. 1948.

together with certain new developments in merchandising that gave the greatest impetus to legislation placing limits on price reductions.

In certain merchandising fields, notably the grocery field, the enforcement of resale prices by suppliers has made comparatively limited headway. The factors accounting for this condition are probably traceable to certain characteristics of grocery products, such as perishability, frequent price changes and the like, but the ease of entry and other characteristics of the field may also be contributing factors. The rapid expansion of chain stores, particularly during the 1920's, was based largely on the appeals of convenience and price. In the 1930's the two-fold impact of depression and the price appeal of the chains encouraged those trade groups most directly affected to turn to legislation which would prohibit sales below "cost" over an entire field. About the year 1935, the "modern" legislation against sales below "cost" began its growth, expanded rapidly until about 1941, continued to grow slowly in the post-war years and now is reported as being in effect in thirty States.

In general, such legislation applies to wholesalers and retailers and establishes a minimum price on the basis of the "cost" to the individual dealer. In one type of statute, the "cost of doing business", which is to be added to the invoice or replacement cost of the retailer, is generally stated "in the absence of proof of a lower cost" as a certain percentage mark-up: in many cases 6 per cent, but in others, 8 per cent and even 12 per cent; and as a certain percentage of the wholesaler's invoice or replacement cost, usually 2 per cent. Another type of statute does not fix a definite percentage to represent "cost of doing business" but lists the various components of that cost and leaves these to be determined, either by an "established cost survey" made by a trade association, or by the presentation of accounting data to the Courts. Still another version fixes the minimum cost at the invoice or replacement cost. These statutes in general do not prohibit sales below "cost" unless they are made with intent to injure competitors or deceive purchasers. However, where injury or deception is the effect or result of such sales, they are declared by the statutes to have been intended to injure or deceive, and in many States a prima facie case arises or there is presumptive evidence of intent on the mere making of a sale below cost.

It should be noted that certain types of sales are exempted from the provisions of these statutes. The exemptions vary somewhat from State to State. Generally they include goods sold at bona fide clearance sales, goods which are imperfect or damaged if so designated, perishable or seasonal goods, goods sold under court order, and goods sold at prices to meet competitors' legal prices. The following eight categories of sales at retail or wholesale which are expressly excluded from the terms of the statute of one State represent a somewhat more detailed list of types of exempt sales:

1. Where merchandise is sold in bona fide clearance sales,

advertised, marked and sold as such;

2. Where perishable merchandise must be sold promptly in order to forestall loss;

3. Where merchandise is imperfect or damaged or is being discontinued and is advertised, marked and sold as such;

4. Where merchandise is sold upon the final liquidation of any business;

5. Where merchandise is sold for charity purposes or to relief agencies;

6. Where merchandise is sold on contract to Departments of the Government or Governmental institutions;

7. Where the price of merchandise is made in good faith to meet competition;

8. Where merchandise is sold by any officer acting under the order or direction of any court.

It is not the intention of this present section to undertake an exhaustive analysis of the terms or the interpretation of this legislation. However, in order to obtain some direct information on the number of prosecutions under these statutes, on whether the legislation tended to discourage price cutting without prosecutions being necessary, on what difficulties, if any, had been encountered in administering these Acts and similar matters, the Director, on August 10th, 1953, wrote to the Attorneys General of the thirty States having such legislation, asking their assistance in providing information upon these matters. Up to the present, replies have been received from eighteen States. Some of these replies were very detailed and the gratitude of the Director for the careful consideration given his request by the various State officials should be here recorded. It is obviously impossible to report these replies in detail. However, the major conclusions of the officials who have dealt, over a period of time, with the administration of the statutes, are summarized below and merit careful consideration.

One official explained that the statute of his State forbade the sale of articles or produce at less than "cost" (invoice or replacement cost plus actual operating expenses), "for the purpose of injuring competition". His comments justify quotation at some length:

> "The portion of this act in which you are apparently interested, is that portion which forbids the sale of articles or products at less than cost, 'for the purpose of injuring competitors and destroying competition.'
>
> The quoted language has occasioned considerable difficulty

in attempting to enforce the provisions of this act. A statutory presumption of intent to destroy competition has been held unconstitutional in this state, and it is therefore necessary to prove unlawful intent, in fact. As a result, there have been no suits for injunction brought since 1950. . . .

In order for the act to accomplish its intended purpose, it would be necessary to impose criminal sanctions upon sale below cost, irrespective of intent. If this were done, we have no doubt but that enforcement of the act would be extremely unpopular with the consuming public, who are naturally attracted by loss-leader selling. . . .

All in all, and although this does not constitute an official opinion, it appears to be the trend in this state to resort to freer competition. The inhibitions of the Act in . . . have not appeared to be effective, nor to accomplish the intended purposes of the act."

In the case of another state it was pointed out that "much of the Act's effect" appeared to have been achieved without prosecution being necessary. It was the practice in this State to call the various parties concerned together at a meeting at which the price reduction was dicussed and investigated and it was the opinion of the official that "at least temporarily" the practice of "loss-leader" selling was discontinued. It was pointed out, however, that the statute exempted certain sales from the provision of the Act and, in so doing, made its enforcement by prosecution "almost impossible." More explicitly, this official stated:

". . . such exceptions create loop-holes in the law and it has been our experience that consumer-minded jurors feel a minimum of vindictiveness for alleged offenders. In the past several years we have not gained a single conviction in these Statutes despite what appeared to be very strong cases for the prosecution. Also, as a practical measure, it has been necessary for the State to commence all such actions since retailers are reluctant to swear out a complaint against their colleagues. Possibly the criminal nature of the charge contributes to this situation."

In this State, as in most others replying to the Director's letter, it was the experience that the majority of the violators were found in the grocery store field and the drug store field. This was perhaps due less to the fact that price reductions were not made in other fields than to the fact that the same result could be achieved by means that did not infringe the statute. As this official pointed out, "in the instances of more expensive items, the purpose of the law is pretty much avoided by a system of giving exorbitant turn-in credits on used merchandise given as part of the purchase price."

In a few States the enforcement of the act prohibiting sales below cost has been assigned to a special division of government or to a special Commission set up for this purpose. One such enforcement division stated: "We combat price wars or indiscriminate loss-leader selling by use of methods other than court action whenever possible." The official in this case felt that, on the whole, "diplomacy, tact and reason" could be used with considerable success in discouraging "indiscriminate price cutting"; however, he went on to point out that experience had indicated that "a certain number of prosecutions have been necessary to discourage price-cutting". He also stated that, during the period in which his agency had been in operation, it had "never completely eliminated this practice".

In the case of another State which also had an agency to supervise the enforcement of the legislation against sales below cost, there was little to report by way of prosecution. One of the difficulties encountered in relying upon legislation of this type to protect certain categories of retailers or to establish effective control over the play of competitive forces was well indicated in a quotation from a judgment in another State brought to the Director's attention in a memorandum which had been prepared by this agency in connection with a complaint that was lodged with it. In the judgment in the case of Bristol-Myers Co. vs. Lit Bros., 336 Pa. 81, 6 A (2d) 843, which arose under the Pennsylvania Fair Trade Act of 1935, the Court said:

> "If, for example, merchant A provides orchestral music for his customers at a certain hour of the day, or maintains in his store a salon where works of art are exhibited, or a nursery where children are fed and otherwise cared for while their mothers are shopping in the store, or if he provides his customers free bus service to and from his store, merchant B has no grounds for complaint which the law will heed. Yet all these things confer benefits on the customer and some of these benefits are susceptible of pecuniary measurement. It follows, therefore, that for a merchant to confer pecuniary benefits upon his customers, which benefits some competing merchant does not confer, does not amount to such unfair competition as the Fair Trade Act forbids. Merchant A can extend his customers 30 or 60 days credit on the purchase of a commodity while merchant B refuses to extend any credit on the purchase of the same article. A is not thereby violating the Fair Trade Act. A may allow a discount of 1% on all bills paid within ten days after being rendered. B may allow no such discount. A is not thereby violating the Fair Trade Act."

In another State, whose Unfair Sales Act prohibited sales below cost plus a mark-up of 6 per cent, it was pointed out that the legislation did not create any criminal violations for contraventions of the Act and it was also explained that the Act had rarely been used by the independent retailers "because it appears that they hesitate to bring civil action against another for selling below cost".

In another State only one case had been litigated under the Unfair Sales Act. In this case it was reported to the Director that in its judgment the Court observed:

> "There are some indications, at least in New England, that the Statutes are used by the large sellers against the small sellers to prevent local price-cutting, rather than protecting the small seller against a concerted campaign of underselling by the larger units."

It should be added that the legislation prohibiting sales below cost could be used most effectively in this manner in the absence of a clause permitting the meeting of competition in good faith.

One State, the legislation of which prohibited the sale of cigarettes at a loss "when the purpose of such sale is not legitimate", reported that it had been "rather successful" in maintaining "an even level in the sale of cigarettes". The official in this State reported that there had been a number of violations of the law and that in all such cases, "those violating were vigorously prosecuted".

In a State which only recently enacted legislation prohibiting sales below cost, enforcement of the law was left to the State retail grocers association. An official of this association reported that "quite a number of suits had been filed and that in all cases, the association had asked for injunctive relief only and that no suits had been filed by individuals charging injury to their businesses and requesting damages". The official reported that most of the suits had been settled by mutual agreement without the necessity of procuring permanent injunctions and that many suspected violations of the Act had been corrected when called to the attention of the merchants without the necessity of a law suit. It was his view that the statute had "materially decreased" selling below cost.

Two States reported that no proceedings, so far as the reporting officials were aware, had been instituted under the statutes. They both pointed out, however, that the economic situation which had prevailed since the legislation had been enacted (about 1940) was such that there had apparently been no need for "loss-leader price-cutting practices".

An official of an agency which was recently set up to enforce the Unfair Sales Act at the wholesale level with respect to wholesalers of tobacco and groceries, reported it as his view that the statute had lessened the use of the "loss-leader" method of competition, but he went on to point out that the success of an Act prohibiting sales below cost "depends largely on voluntary compliance and on the support given it by wholesalers and retailers". He added that this was an essential condition for effective administration of the Act since only in this circumstance will violations "not be so numerous as to make enforcement impossible without a very large inspection force".

An official of an agency having the responsibility for the enforcement of both "Fair Trade Legislation and Legislation prohibiting sales below cost" (the latter requiring a mark-up of 6 per cent above invoice or replacement cost) reported that, while this latter law had removed loss-leaders from the advertised lists, it had had a tendency to "compel the retailer to place in his special ads, several items at 6% that used to be advertised at 5, 10 or15 per cent higher and the public was made to believe it was still getting a big deal and the loss-leader artist was getting his regular price".

The remaining reports pointed out that, so far as the officials reporting were aware, no prosecutions had taken place and nothing effective had been done administratively to enforce the legislation prohibiting sales below cost.

APPENDIX

Governmental Investigations Into "Loss-Leader" Selling

The inroads into the position of the independent retailer made by the new methods of merchandising introduced on a substantial scale in the 1920's were reinforced by the conditions of depression which developed and persisted through the greater part of the 1930's. The emphasis which the chains placed upon self-service and the price appeal, together with the price reductions that accompanied the decline in national income, gave rise to many complaints about price-cutting and also to much concern about price behaviour in a broader sense. "Loss-leader" selling was one of the practices that was subject to criticism in the prosperous 1920's and which came in for particular attention in the 1930's. Two governmental investigations, one in Canada and one in the United States, devoted some attention to the matter of "loss-leader" selling in the 1930's. In addition, two further studies, one in the United Kingdom and one in the United States, made some examination of "loss-leader" selling in connection with inquiries into resale price maintenance. The conclusions relating to "loss leaders" as found in these four reports are quoted in the following pages.

A. "Loss-Leader" Selling in the Price Spreads Report

In Canada the investigation of "loss-leader" selling was part of the group of problems examined by the Royal Commission on Price Spreads which issued its report in 1935. The conclusions of the Commission on "loss leaders" were as follows:

> "One of the most common practices of modern merchandising is the use of 'leaders' or 'loss leaders.' These terms have, as yet, received no exact definition, but are understood broadly to mean merchandise featured or sold at prices easily distinguished as being less than customary prices. Such price reductions are made for the purpose of attracting customers and promoting sales, not so much of the featured articles as of other articles on which a higher profit is secured.
>
> While the term 'loss leaders' may have had its inception in the use of articles which were actually sold below cost, an actual loss is nowadays seldom experienced on most leaders. The general practice is to reduce materially the customary margin on goods used as 'loss leaders.' For a leader to be effective it must have a wide appeal and be sufficiently standardized to permit comparison of the cut price with that regularly charged. Goods in common use, such as sugar and butter, meet these requirements, but trade-marked or branded articles may be equally effective as 'leaders.'

Special mention must be made of the disastrous effect of loss leaders on the primary producer. The use, for example, of butter as a loss leader was proved to be a very widespread practice. Since a reduction in the price of butter will not perceptibly increase its consumption, this practice very definitely causes a loss to the dairy producer that far outweighs any possible gains to the consumer. This is equally true of other standard agricultural products. Their use as loss leaders establishes, as customary, a price that reacts to the detriment of the primary producer.

Likewise, a manufacturer, who has built up a wide demand for his products, is injured when these are regularly sold at cut prices. Because the profit margin is thereby lost on such goods, competitors of the price-cutter lose interest in the goods and push more profitable lines. On the other hand, consumers who tend to connect price with quality are apt to suspect that the quality is deteriorating when well-known merchandise is offered at cut prices. Thus, although the manufacturer may feel an initial stimulus in demand because of the lower prices at which his products are being offered, this may soon be lost as public interest wanes. There is the further argument that when articles become regularly used as leaders, pressure is exerted on the manufacturer to lower his prices so that a margin of profit may be secured by the distributor at the lower prices. These arguments, however, are chiefly valid when cut prices are maintained for fairly long periods or where the policy is applied consistently to a few articles. If the leaders are offered only for a day or two, the injury to the manufacturer is not very great.

The consumer who purchases goods at cut prices undoubtedly gains on those items. But leaders are offered primarily to draw the public and create the impression of similar value as applied to goods on which prices have not been cut. While the difficulties of judging quality and price are growing with the increasing use of branded and trade-marked articles, the average purchaser can pick out the 'loss leaders' from the other goods offered; otherwise there would not be the same widespread use of this device.

The competitors of the store using the 'loss leader' are, however, the persons chiefly affected. That the deliberate use of cut prices to draw patronage away from competitors is an unfair trade practice, is quite clear. Such reductions are not prompted by any desire to serve the public by giving lower prices. One purpose is to attract customers to whom the store hopes to sell goods that are not loss leaders, at substantial profits. Another purpose is to create the illusion of lower prices on all articles. That this end is not always attained does not in any way lessen the unfairness of the practice.

It may be argued that competitors can adopt the same tactics. Large organizations including chains and department stores do so compete. But independent retailers, unless they associate together

cannot pursue the same tactics for several good reasons. The volume of trade in the average independent store is not sufficient to permit the advertising of specials. On many articles the chain stores, through purchasing in large quantities, with special discounts added to regular quantity discounts and bonuses from the manufacturer in the form of advertising allowances, have a much wider spread than has the independent store. Thus, when the chain sells below its usual mark-up, its selling price is often below the cost price of the independent. If the latter attempted to meet such cut prices, he would be selling his goods at an actual loss.

As independent merchants, singly, cannot meet the leaders of chain stores, many have joined the voluntary associations already described. By acting together, such groups of merchants can and do follow practically the same policy of using 'loss leaders' as is pursued by the corporate chains. Those independent merchants who are not members of such associations are, therefore, subjected not only to the unfair competition of chain stores but also to that of voluntary chains.

We condemn the practice of loss leaders as unfair, promoting wasteful competition and seriously affecting the income of certain classes of primary producers, but in seeking a solution for the problem through legislative remedies we are confronted with certain difficulties. These difficulties are complicated by our recognition of the necessity and propriety in certain circumstances of price reductions. Such reductions for instance must be permitted when a retailer discontinues handling a particular line of merchandise, or when he clears slow-moving stock. There is also the necessity of cutting prices to clear out-of-style goods or surpluses of perishable commodities. These are legitimate reasons for reducing prices, but they complicate the definition of what constitutes a loss leader and make difficult its simple prohibition."*

In the section of its <u>Report</u> entitled "General Recommendations", the Royal Commission on Price Spreads made the following recommendation with reference to a group of "unfair" competitive practices:

"We feel, further, that it would be unwise to attempt to write at present into statute law a rigid definition of what constitutes an unfair practice, with a list of such practices. Such a list, if appropriate at the present time, would probably soon be rendered obsolete by changing conditions. At the same time we recommend that the Act creating the Trade Commission and giving it power to prohibit unfair competition should establish certain principles for the determination of 'unfairness.' We recognize that there is a very real danger of confusing the economic, legal and ethical

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* <u>Report of the Royal Commission on Price Spreads</u>, pp. 228-230.

implications of 'unfairness' and we feel that this danger might be removed to some extent if certain general criteria were laid down in the Act. We suggest that practices should be prohibited as unfair which are characterized by bad faith, fraud, misrepresentation, or oppression; which are resorted to for the purpose of destroying competition or eliminating a competitor; which facilitate the development of monopoly; or which destroy fair competitive opportunity and prevent the survival of those who can organize and carry on the production of goods most efficiently. It is in this sense that the word 'unfair' should be used in the Act.

Without attempting to restrict the application of this test of 'unfairness' by the Commission we feel that certain practices which we have examined should very definitely be considered 'unfair' under the Act. They are so widespread and generally condemned that their complete prohibition by the Commission is justified. We refer specifically to--

(1) discriminatory discounts, rebates and allowances,
(2) territorial price discrimination and predatory price-cutting."

(p. 270)

B. "Loss Leaders" in Chain Stores in the United States

In the United States a detailed investigation into various aspects of "loss-leader" selling as it related to chain-store merchandising was carried out through the period 1928-1934 by the Federal Trade Commission under Senate Resolution No. 224 of the Seventieth Congress. Thirty-three reports dealing with various factual aspects of the investigation were published and, in addition, a final report summarizing the conclusions of the Commission with reference to the policies and practices of the chain stores as revealed by the general investigation.

One of the difficulties encountered in this, as in other investigations of "loss leaders", was that of definition. The following quotation from the report, Chain Stores, Chain-Store Leaders and Loss Leaders (Senate Document No. 51, Seventy-second Congress, first Session), refers to this difficulty:

"The terms 'leader' and 'loss leader' have indefinite meanings and are used by chain-store organizations in widely different senses. A loss leader apparently is variously considered as an article sold below net invoice cost, net purchase cost or net manufacturing cost as the case may be, or it may be applied to goods sold below the net purchase cost of the goods plus operating costs, or simply to goods sold below the usual mark-up.

In a broad sense leaders may be defined as merchandise featured or sold at reduced prices to attract buyers and thereby

stimulate sales of these leaders and other goods. Such goods may be used more or less regularly and may or may not be advertised. Goods marked down because of change in style, end-of-the-season or clearance sales, odd-lot offerings, or goods that do not sell readily or that must be closed out because of their perishability, and which may be sold at reduced prices, or at cost or below cost, are not always considered as leaders by the chains. There are, however, numerous chains which select some of their leaders from one or more of these kinds of merchandise, or feature such goods in special sales."

(pp. 2-3)

The same report investigated (1) sales of leaders below net purchase cost, (2) sales of leaders below total cost, and (3) percentage losses on leaders sold below replacement cost. Although the data obtained in this investigation now possess little relevance for the altered economic and merchandising conditions in effect today, they may, nevertheless, be of some value as a source of information on the extent of "loss-leader" selling in earlier periods, as well as providing factual information on the type of product used for "loss-leader" purposes.

"SALES OF LEADERS BELOW NET PURCHASE COST

Information concerning the sale of merchandise other than private brands as leaders at less than net purchase cost was returned by 777 chains operating 18,314 stores in 1922, and by 1,458 chains operating 47,966 stores in 1928. In 1922 a total of 69 chains, or 8.9 per cent of all the chains reporting on this matter, sometimes sold leaders at less than net purchase cost, and in 1928 there are 174 so reporting, or 11.9 per cent of the total furnishing information. The 8.9 per cent of the chains that reported the sale of leaders below net purchase cost operated 2,710 stores, or 14.8 per cent of the stores operated by all reporting chains in 1922, and in 1928 the 11.9 per cent of the chains reporting the sale of such leaders operated 8,056 stores, or 16.8 per cent of the total stores.

Chains in 15 of the 26 different kinds of business sold leaders below net purchase cost in 1922, but in 1928 chains in 19 of these 26 groups so reported. Of these 15 kinds of chains for 1922, 8 kinds showed an increase in the proportions of leaders sold below net purchase cost in 1928. Of the 7 remaining kinds of business, 4 showed decreases and 3 reported no change. The changes between 1922 and 1928 in the proportion of stores operated by the different kinds of chains selling leaders below net purchase cost coincide closely with the changes in the proportions of chains.

The 1928 total net retail sales of $1,147,673,000 reported by the 174 chains that sometimes sold leaders, other than private brands, at less than net purchase cost amounted to 31 per cent of the total net sales of all chains reporting. The average net sales per chain in 1928 for those that sold these leaders below net

purchase cost amounted to $6,596,000, while for those chains that reported they did not sell leaders below net purchase cost, the average net sales were $1,991,000. These are the total sales, of course, of the chains which used this practice and not the leader sales.

From information reported by 777 chains for both 1922 and 1928 concerning the sale of merchandise, other than private brand goods, as leaders at less than net purchase cost, it appears that the practice of selling such leaders is increasing with some types of chains, chiefly in the grocery, grocery and meat, and drug lines. In 1922 only 69 chains, or 8.9 per cent, reported the sale of such leaders below net purchase cost while in 1928 the number had increased to 88, or 11.3 per cent of the total. At the same time the stores reported had increased from 2,710, or 14.8 per cent, to 6,494, or 18.8 per cent, of the total stores operated by the 777 chains.

Except in the grocery, grocery and meat, drug, and women's shoe chains there were apparently no important increases in the numbers or proportions of chains sometimes selling goods below actual net purchase cost during the period 1922 to 1928. This is also true in general for the numbers and proportions of stores operated by these chains.

Nearly half (46.5 per cent) of the chains reporting the sale of leaders below net purchase cost operated from two to five stores each in 1928, with 3.4 per cent of the total stores belonging to all chains that sold such leaders below net purchase cost. On the other hand, four chains operated a total of 3,608 stores, or 44.8 per cent of all the stores belonging to chains reporting such sales, and 17 companies, or approximately 10 per cent of the total reporting chains, operated 76 per cent of the total stores. The grocery, grocery and meat, and drug chains are the only ones in which any chains of over 100 stores reported such loss leader sales. It is probable that the few large chains that reported the sale of leaders below net purchase cost actually sold more of such leaders through their many more stores than the larger number of smaller chains sold through their stores.

Private brand goods are much less frequently sold below net purchase cost than other kinds of merchandise. Only 18 chains out of 364, or less than 5 per cent, sometimes sold such goods as leaders at less than net purchase cost in 1928. Only 8 of the 26 groups include any chains reporting the sale of private brand merchandise at less than actual net purchase cost.

SALES OF LEADERS BELOW TOTAL COST

Out of a total of 827 chains reporting on the sale of standard brand articles below total cost (including operating costs) during the last week of December, 1928, 97 chains, or 11.7 per cent of the total reporting, stated that they did sell such leaders during that

week. These 97 chains operated 12,949 stores in the last week of December, 1928, or more than one-third of the number operated by all chains reporting on the question. Although the proportion of these chains selling below total cost (11.7 per cent) is about the same as the proportion of the 1,458 chains (11.9 per cent) reporting that they sold leaders at less than net purchase cost in 1928, the proportion of total stores operated by the former (36.4 per cent) is more than twice that of those operated by the latter (16.8 per cent). About 99 per cent of the stores belonging to the 97 chains that reported such sales were operated by only three groups of chains. The only kinds of chains for which any considerable number of companies reported sales below total cost were grocery, grocery and meat, and drug chains.

PERCENTAGE LOSSES ON LEADERS SOLD BELOW TOTAL COST

While the reports showing percentage losses on specific articles of merchandise sold as leaders are not as comprehensive as is desirable, they are sufficient to give an interesting indication of the size and proportion of the losses involved. On 254 items in 25 commodity groups thus sold below total cost (including operating expenses) by 36 grocery and grocery and meat chains operating 11,369 stores during the last week of December, 1928, the average loss was 9.9 per cent and ranged from 3.3 per cent on toilet paper to 14.6 per cent on cigarettes. Seven commodity groups, in addition to cigarettes, averaged over 10 per cent loss, namely, canned peaches, 13 per cent; canned vegetables, 12.7 per cent; canned milk, 12.5 per cent; soap, 11.6 per cent; cereals, 11.1 per cent; canned soup, 10.8 per cent; and sugar, 10 per cent.

Only 4 out of 29 groups of items were sold at less than a loss of 10 per cent below total cost (including operating expenses) by 25 drug chains operating 957 stores during the last week of December, 1928. These four articles are shaving cream, liniments, Syrup of Figs, and Father John's medicine. The balance of the items show from 10 to 26.2 per cent loss. They cover a wide variety of merchandise: Cigarettes, soaps, ointments, tooth pastes, razor blades, shaving creams, toilet creams, hair tonics, emulsions, lotions, and others. The most frequently reported item is tooth paste, reported 41 times and sold at an average loss of 13.6 per cent. Next is Listerine, reported 20 times with an average loss of 15.1 per cent.

PERCENTAGE LOSSES ON LEADERS SOLD BELOW REPLACEMENT COST

A number of chains listed their largest selling branded articles (excluding their own private brands) sold at less than net purchase cost together with the lowest selling prices during 1928, and the net purchase or replacement cost on the same date. It should be noted, however, that the foregoing losses on a replacement cost basis do not necessarily mean that the sales are actually below the prices at which the chains purchased the goods in question.

Eight grocery and meat chains, operating 526 stores, reported losses, on a replacement cost basis, ranging from 1.5 per cent on Dixie Gold butter to 23.1 per cent on Palmolive soap. Other large losses are Star lard, 17.4 per cent; Maxwell House coffee, 13.3 per cent; Jell-O, 16.7 per cent; Baker's cocoa, 11.8 per cent; Gold Medal flour, 8 per cent; Libby's milk, 9.8 per cent; Crystal White soap, 16.6 per cent; and Shredded Wheat, 16.7 per cent.

Ten grocery chains operating 304 stores show somewhat lower losses on replacement costs, the highest one reported being only 12 per cent, on Campbell's tomato soup. No other losses as high as 10 per cent are reported by any of these chains.

For 17 drug chains, operating 140 stores, the losses on replacement costs run higher than in grocery or grocery and meat chains. For Palmolive soap, the highest reported loss is 31.4 per cent, the lowest, 16.7 per cent. Other high-loss items reported one or more times are Ipana toothpaste, 26.7 per cent; Kotex, 3.3 per cent to 20.7 per cent; Listerine, 4.5 per cent to 15.6 per cent; Bayer's aspirin, 2.8 per cent to 16.7 per cent; Feen-a-mint, 18.8 per cent; Beecham's pills, 25 per cent; Hinds Honey and Almond Cream, 13.3 per cent to 23.3 per cent; Palmolive shaving cream, 5 per cent to 19 per cent; Pond's face cream, 8 per cent to 15.8 per cent; Gillette razor blades, 3.4 per cent to 13.8 per cent.

For 9 variety chains, operating 417 stores, the losses on a replacement cost basis areeven higher, there being only 7 instances out of the 39 items reported where the losses on replacement costs are as low as 10 per cent. Among the outstanding losses are Palmolive soap, ranging from 20 to 24.2 per cent below replacement cost; P & G soap, from 4.9 to 35.1 per cent; Ivory soap, 23.1 per cent to 28.6 per cent; Lifebuoy soap, 39.5 per cent; Lux soap, 16.7 per cent; Cannon towels, 20 per cent; Campbell's soup, 16.7 per cent; and Waldorf toilet tissue, 21.6 per cent."

(pp. ix-xii)

C. The Federal Trade Commission, 1945, on "Loss Leaders" and Resale Price Maintenance

As part of its study of resale price maintenance which was published on December 13, 1945, the Federal Trade Commission made some inquiries into "loss-leader" selling in a number of major fields of retail distribution. The comments of the Commission on a number of these fields that are of special interest to the present survey of "loss-leader" selling are quoted below:

Drug Stores

"Leader merchandising.--One of the principal practices responsible for independent retail druggists' support of resale

price maintenance legislation was that of using nationally advertised brands as leaders. This practice consisted of advertising at lower prices well-known products for which an extensive demand existed. The purpose was to induce customers to come into the store to purchase the advertised products with the expectation of selling other products upon which the store might make a higher margin of profit.

There were several types of stores handling drug-store merchandise which most commonly used the leader type of advertising to attract customers. Prominent among these were chain stores, so-called cut-rate stores and department stores. While these stores generally operated on the principle of volume sales at a lower margin, they frequently depended on private brand or other goods to increase the general average margin of profit of the store."*

(p. 128)

<u>The Food Trade</u>

"<u>Leader and loss-leader selling in the food trade.</u>--Probably no subject in the field of food merchandising has been talked about more and with less factual information at hand than leader and loss leader selling. Examiners of the Commission questioned trade association executives and retailers on the subject, and although the majority of those interviewed severely condemned practices loosely termed loss-leader selling, bait selling, price cutting, predatory price cutting, etc., none had made or had available any recent comprehensive studies to support their conclusions. The subject of 'loss-leader selling' seems to be surrounded by considerably more emotionalism and wishful thinking than actual information based on scientific study. It is not meant to imply that price competition of an unfair and uneconomic nature does not exist in the food trade, but rather that the exact nature, extent, seriousness, and competitive implications of the practice are not fully known by those who most freely condemn the alleged vicious pricing methods.

Certain practices loosely referred to as loss-leader selling, are actually merely a reflection of efficient, large-scale buying and selling. For example, the many grocery and combination stores, with an annual sales volume of less than five or ten thousand dollars, most of which are not affiliated with voluntary or cooperative buying groups, are at a distinct disadvantage in competition with the stores belonging to large-scale-buying groups, and corporate chains, or with super-markets buying direct. Furthermore, those outlets with relatively high operating costs, even though they offer compensating services such as credit,

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* <u>Report of the Federal Trade Commission on Resale Price Maintenance</u> (1945).

delivery, convenient location, etc., are prone to believe that the lower prices of competitors offering less service are unfair. Such higher cost outlets fail to realize that they must sell the additional services they offer, whether they be convenient location, credit, delivery, telephone service, longer hours or others, just as a grocery commodity itself must be sold, and that they must not expect to follow the pricing policies of retail outlets offering a minimum of service to the customer. It is also often intimated, by retail grocers and some trade association executives, that the high mortality in the grocery trade is due to the prevalence of loss-leader selling. Studies of dealer mortality in the food trade, however, fail to support such a contention. Other factors, such as lack of managerial ability, lack of knowledge of the business, lack of records, lack of capital, insufficient sales volume, predominate as the primary reasons for failure in the food trade.

In view of the differences in cost of operation of the various types of retail grocery and combination stores and the varying degrees of efficiency of operation of individual outlets, it is reasonable to believe that the volume of harmful price cutting is considerably less than indicated by the large number of complaints. From the vague and inclusive references to loss-leader selling employed by food-trade proponents of resale price maintenance, it would appear that their objective is not only to correct the harmful price cutting that may exist in the food trade, but, in addition, to nullify as much as possible price reductions resulting from lower cost operation."*

(pp. 258-259)

Cigarettes

"Adaptability of cigarettes to leader merchandising.--Few products are more adaptable to leader merchandising than cigarettes. They are purchased at frequent intervals, in fact, daily, by a great many consumers and are regarded by many as being a necessity. Unquestionably, such products can be classified as convenience goods as the consumer knows in advance the particular brand desired and is interested in making a purchase with as little effort as possible.

Advertising by manufacturers has been a powerful influence in popularizing certain brands of cigarettes. Consumers, generally, ask for cigarettes by brand name and consquently there is little opportunity for retailers to attempt to influence sales by offering substitute brands.

The urge for a retailer to cut the price of a product possessing such characteristics in order to increase store traffic appears to be almost irresistible. Apparently many retailers, particularly those who carry cigarettes as a side line or as an accommodation,

* Report of the Federal Trade Commission on Resale Price Maintenance (1945).

find it good business to do so.

Although many retailers consider the margin of profits on the leading brands of cigarettes as inadequate, consumer demand practically forces them to stock such brands. In this connection, a prominent Chicago tobacco jobber informed an examiner of this Commission, in substance, that--

Although many retailers do not wish to sell cigarettes at cut prices, they are forced to do so because it is feared that important sales volume will be lost on other products if they do not meet competitive prices.

Leading cigarette manufacturers refrain from establishing minimum resale prices.--According to the secretary of the National Association of Tobacco Distributors, in answer to that association's request for tobacco manufacturers to establish minimum prices on their brands of products, similar replies were received from the so-called Big Four cigarette manufacturers, namely, R. J. Reynolds Tobacco Co., American Tobacco Co., Liggett & Myers Co., and P. Lorillard Co. in which it was explained that such action would be impractical because of their respective competitive positions. The Secretary stated, substantially, that--

Each manufacturer replied that it could not take the lead in establishing minimum retail prices because such an action would give those who did not follow a similar course an important competitive advantage and that if they all filed contracts at the same time they would be accused of collusion.

An examination of the past price policies of the leading cigarette manufacturers does not indicate that they fear criticism as a result of promulgating wholesale price changes on the same date. . . .

There seems to be, however, considerable support of the contention that the manufacturer which takes the lead in making a price advance places itself at a competitive disadvantage. . . .

. . .

Members of the trade attribute the reluctance of the large tobacco manufacturers to establish minimum resale prices on their branded products to other reasons besides those which relate to the competition among manufacturers themselves. For instance, Joseph Kolodny, secretary of National Association of Tobacco Distributors, in an address delivered at the 1939 annual convention of that association, mentioned, among other things, the following points:*

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* United States Tobacco Journal, January 28, 1939, p. 8.

6. An important reason for the manufacturer's slowness in espousing resale price contracts is the realization that many of them find it to their own interest to encourage competition among the distributors of products.

7. Distributors' price competition tends toward lower retail prices by reducing the distributors' margin instead of the manufacturer's profit.

8. If distributors' margins are guaranteed, the retail price is likely to be a higher level and unless the consumer cheerfully accepts that increased price the manufacturer may face the alternative of a decrease in sales volume or a reduction in his unit price to the retailer.

9. Among the arguments which were submitted in favor of resale price maintenance during its legislative consideration is the belief that the consumer would be protected by the competition of the manufacturers for volume sales. Many manufacturers evidently fear that this argument is not entirely true.

. . .

12. An additional problem which is deterring manufacturing from adopting resale price contracts is inherent difficulty of finding a minimum-price floor for which they are willing to invoke the sanctions of the law.

13. Price making in distribution is no simple matter. Some goods are sold direct to retailers; some through wholesale channels; some through cooperative organizations; and in many cases by the joint use of all channels." *

(pp. 455-459)

Hardware

"Use of hardware trade merchandise as 'leaders.'--The use of nationally known and extensively advertised hardware trade articles as 'leaders,' or 'specials,' to attract business is engaged in largely by retail outlets other than regular retail hardware stores. Furthermore, in the case of hardware trade merchandise this practice is not as widespread as in the case of other lines of products, but tends to be confined primarily to certain localities. In listing the localities in the United States where price competition through the use of hardware trade merchandise as 'leaders' is most extensive, an executive of the National Retail Hardware Association referred to points in the States of Minnesota, Iowa,

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* Report of the Federal Trade Commission on Resale Price Maintenance (1945).

Michigan, and Kentucky. As an example of the price competition hardware store dealers had to contend with, the case of a chain drug store located in Minneapolis, Minn., was cited which sells sporting goods at a price which does not allow a margin of profit sufficient for the conduct of a profitable business. . . ."*

(p. 487)

"Hardware items used as premiums.--An important volume of hardware sales is lost to retail hardware stores and other outlets selling hardware-store merchandise through the wide-spread use, as premiums, of hardware items such as kitchen utensils, small electrical appliances, sporting goods, etc., with grocery or other products. In August 1939 the subject of hardware items used as premiums was discussed at the hardware congress, held in Cincinnati, Ohio. In reporting this meeting, the trade journal, Hardware Retailer, made, in part, the following statement:**

Because of the widespread use of hardware-store items as premiums, the subject was scheduled for discussion at the Cincinnati congress, and the speaker chosen to present it was Herbert J. Taylor, president, Club Aluminum Co., who has had considerable experience both with the use of premiums in merchandising and with the sale of merchandise for premium use.

. . .

Premium volume in the United States is $425,000,000 annually, Mr. Taylor said--a sum equivalent to half the total of all merchandise sold through hardware stores. Inasmuch as a great portion of premium merchandise is the kind of goods which normally is sold through hardware stores, the use of such goods as premiums means to hardware stores not only lost sales but also loss of store traffic which they would have if women came to shop for the goods.

The adoption of resale price maintenance by manufacturers of branded hardware items used as premiums would tend to discourage their use for this purpose and in turn might return some of this sales volume to regular retail hardware-store outlets. That this possibility is recognized is indicated by the fact that 18 of the States having resale price maintenance laws have included a specific provision to the effect that gifts or concessions of any kind shall be considered a violation of minimum resale price contracts."*

(p. 490)

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* Report of the Federal Trade Commission on Resale Price Maintenance (1945).

** Hardware Retailer, August 1939, p. 61.

General Conclusions

The general conclusions on "loss-leader" merchandising reached in this study by the Federal Trade Commission are summarized as follows:

> "2. Leader merchandising, for the control of which resale price maintenance was advanced, is a form of price competition that obviously may be used for unfair or deceptive trade purposes, particularly when used by large concerns to eliminate weaker competitors. As a corrective of objectionable features of price competition, however, resale price maintenance makes no distinction between price competition that is economically unsound or is unfairly used in trade, and price competition that is economically sound and in the public interest because it results in adequate service to the public at prices consistent with differences in consumer service rendered by dealers using different methods of distribution."*
>
> (p. IIV)
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> "18. One of the principal arguments advanced for the legalization of resale price maintenance was that it was needed to enable manufacturers to control undesirable leader merchandising and 'sales below cost.' Proponents emphasized extreme price wars and the impression was created that before resale price maintenance became effective many nationally advertised brands were sold, especially by chain stores and other large distributors, at or below invoice cost. In general, sales below invoice cost are exceptional. The records of chain stores, department stores, and super markets examined in the present inquiry indicate that although the average prices of such large distributors often were lower than those of independent stores before resale price maintenance became effective, those lower prices yielded substantial average gross margins over invoice cost of goods in all market areas visited.
>
> After resale price maintenance became effective the price advances forced upon large distributors, especially for a number of brands handled by the drug trade, yielded larger gross margin percentages to large retail distributors than to individual drug stores as a class in the same markets, although the latter, in general, sold the brands at higher prices than the former. Thus, it would seem that the large distributors had a real advantage in pricing their goods, possibly because they purchased in larger quantities directly from manufacturers whereas small retailers were purchasing in smaller quantities from wholesalers and paying higher prices.

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* Report of the Federal Trade Commission on Resale Price Maintenance (1945).

The 'sales below cost' argument yields itself to overemphasis because it is indefinite in meaning unless 'cost' is fully defined. In the hands of strongly organized groups of retailers, resale price maintenance fits well into plans to restrict price competition and enhance prices to levels yielding margins adequate to cover distribution costs and profits desired by organized pressure groups."*

(pp. LIX-LX)

"25. Both the results of the Commission's present special study of the operation of legalized resale price maintenance and information developed over a period of many years in connection with complaints strongly confirm these earlier conclusions and point to the further conclusion that in the absence of effective Government supervision in the public interest, resale price maintenance, legalized to correct abuses of extreme price competition, is subject to use as a means of effecting enhancement of prices by secret agreements and restraint of competition by coercive action on the part of interested cooperating trade groups of manufacturers, wholesalers, and retailers in such ways and to such an extent as to make it economically unsound and undesirable in a competitive economy.

As stated at the outset of this report, the maintenance of retail prices at a fixed and uniform level, prior to the passage of the Tydings-Miller amendment, was against the policy of the antitrust laws, and prior to the enactment of said amendment, a contract aimed at obtaining this result was illegal. The purpose of this amendment, as this report shows, is not to legalize contracts whose object is to prevent predatory price cutting for an ulterior purpose. The antitrust laws do not condemn such contracts. The Tydings-Miller amendment legalizes contracts whose object is to require all dealers to sell at not less than the resale price stipulated by contract without reference to their individual selling costs or selling policies. The Commission believes that the consumer is not only entitled to competition between rival products but to competition between dealers handling the same branded product."*

(p. LXIV)

D. "Loss-Leader" Selling in the United Kingdom

A recent investigation in the United Kingdom, although dealing primarily with the matter of resale price maintenance, devoted some attention to the question of "loss-leader" selling and the advantages and disadvantages of employing resale price maintenance to limit the extent of "loss-leader" selling.

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* Report of the Federal Trade Commission on Resale Price Maintenance (1945).

The following definition of a "loss leader" was used in this report:

> "'Loss-leader' is the name frequently applied to an article sold at a price cut drastically below the established retail price. It is used as a form of advertisement to attract customers into a shop in the hope that they will, at the same time, purchase articles showing a high rate of profit, or that the increase in turnover of articles showing a normal rate of profit will outweigh the losses sustained on sales of the leading line. Very often well-known proprietary articles appear to be used for this purpose; their established price provides a standard against which the public may immediately appreciate the extent of the price reduction. Furthermore the public can be assured that the price reduction is real and not a reduction applied to an article originally marked at a very high price in order to create the appearance of a bargain. Proprietary lines are not, however, always used. One case drawn to our attention was that of a shop selling a bucket at the far end of the counter; the intention being that the customer would fill his bargain with other purchases on the way out."*
>
> (p. 9)

The nature of "loss-leader" selling and some of the difficulties of attempting to control it by the use of resale price maintenance are outlined in the following sections:

> "80. Competition in the retail trades takes many forms and even price competition may be divided into various categories. A retailer may, for example, lower his prices because he has been able to reduce his operating expenses: alternatively, the demand for an article may be highly elastic and he may expect the increase in its turnover due to a price reduction to outweigh the loss in profit per unit sold.
>
> 81. Price reductions, on the other hand, may not reflect any actual or expected saving in operating expenses but may be used as an aggressive weapon of competition. We have already referred to the complaint that retailers have selected well-known proprietary articles for sale at drastically cut prices in the hope of attracting custom through the obvious bargain thus offered. We have shown too that the better known the article and the more firmly established the price at which it is ordinarily sold the more suitable it is for the purpose. A retailer who carries a wide range of stock may find it very easy to reduce the price of one article without necessarily incurring heavy losses; if he sells large quantities of many different branded lines he may be able to afford to sell one or two at a loss, more particularly if he expects some substantial addition in the turnover of other commodities to

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* Report of the Committee on Resale Price Maintenance, Cmd. 7696, 1949, (commonly known as the "Lloyd Jacob Report").

accrue as a result. Price-cutting may be initiated to attract custom from competitors or as a bait to sell other articles which show a high rate of profit. We have been told that whatever the object of the initial price cut, once it has been made neighbouring retailers generally follow suit so that the low price no longer stands as an advertisement. Hence if the object of the price-cut is to be attained a continuing succession of brands must be offered at a cut-price.

82. Such price reductions are plainly of a different kind from those which result from low-cost distribution, or from those which may be considered reasonable in the light of an expected increase in turnover. While it is true that no trader can accurately estimate the increase in his trade which may accrue from price reductions, there is an obvious difference between making a noteworthy reduction in the price of specially selected goods and a gradual reduction in the general level of prices over a whole range.

83. It is, we have found, generally agreed that selective price-cutting and the use of well-known proprietary articles as loss-leaders have in the past had many undesirable results: indeed, some of our witnesses who were the strongest opponents of resale price maintenance agreed that manufacturers should be free to take action against distributors who sold their branded products 'below cost.' The operations of price-cutters who concentrate on a few well-known and highly advertised proprietary articles and who may perhaps stay in a particular business or district for a relatively short time, may create an instability which persists long after their own departure without bringing the shopping public any substantial or lasting benefits.

84. The disruption of trade in popular lines which is brought about by these activities appears to bear particularly heavily on the retailer who, by carrying in addition a wide range of relatively slow selling lines and in some trades by offering skilled technical advice to his customers, provides a service whose value may not be recognised until it has disappeared. Furthermore we see no reason to doubt the validity of the argument advanced by some manufacturers that the uncertainty brought about by prolonged price-cutting may make it difficult and sometimes impossible for them to maintain the quality and continuity of production of their branded goods. These manufacturers have stressed the importance of maintaining a regular and reasonably stable home market for British brands whose reputation is well established in export markets and of preventing fluctuations or deterioration in their quality.

85. We conclude, therefore, that the effects of severe price-cutting of well-known branded goods may well be harmful to the wider interests of the public.

Price Competition and Efficiency in Distribution

86. Our conclusions on this matter must not be taken to imply that we share the belief expressed by many of our witnesses that price competition among retailers is undesirable in itself. We are very far from holding this opinion. Price competition is, in our view, an important factor in the growth of that efficiency and economy in the distributive trades to which our terms of reference draw specific attention.

87. We do not consider that we are competent as a Committee to identify for each trade and product the most economical and efficient methods of distribution, nor have we tried to do so. We have already noted that the development of distributive methods has been a dynamic process in which old barriers are constantly being removed and new techniques introduced. These dynamic tendencies are, we believe, still present in our economy and there is no reason to suppose that there is not still room for further improvement in the distributive system.

88. In our view, therefore, it is essential, if the efficiency of distribution as a whole is to be open to continuous improvement, that positive steps should be taken to create and maintain conditions in which newcomers are free to enter the field, enterprising traders able to introduce new methods and the lower-cost or more efficient distributors (whoever they may be) given the opportunity to offer to the public the advantages of reduced prices or improved methods.

89. It is plain that, if price-maintained goods formed only a small proportion of total trade, the effect upon the general run of distributors could not be very great. As the proportion increases, however, there is a danger that resale price maintenance--particularly when combined with conventional margins--may give rise to an extending rigidity throughout the distributive structure. It becomes more difficult for distributors who trade on a basis of low prices and small service to carry their trading principles over as wide a range of their business. Competition is diverted from price to service and experiments based on cost and price reduction are hampered by the deliberate efforts of many distributors' organisations.

90. Under these conditions margins are related not to individual operating costs but to the requirements of the distributors whom the manufacturer wishes to sell his product. The only margin generally acceptable to all distributors is that which is considered necessary by the class of distributors whose costs are highest and it is by reference to the demands of this class that margins are fixed. The existence of such margins and the security afforded by resale price maintenance may induce more people to be retailers and to deal in branded goods than the total

turnover will justify. There is little incentive for one manufacturer to reduce the margins which he offers; a reduction may enable him to offer his goods at a lower price to the public and so secure some competitive advantage, but it will be wholly ineffective if made with the loss of retail goodwill.

91. In these circumstances the lower-cost or less acquisitive distributor selling goods whose prices are fixed by the manufacturer, may well find himself in possession of 'surplus' profit which is more than he requires or considers to be reasonable, and which he cannot pass on to his customers--and thereby increase his general trade--by reducing the prices of the goods in question.

92. That such a position exists was confirmed by a letter which we received from the Board of Trade. This letter explained that in the investigation leading up to the Miscellaneous Goods (Maximum Prices) (Amendment) Order, 1948, it had been found that certain retailers who bought price-maintained goods in large quantities and on specially favourable terms were faced with the choice either of breaking the manufacturers' condition of sale and selling at 'cut' prices or of taking a margin which, expressed as a percentage of the actual cost of the goods was very high and in fact substantially exceeded the over-riding retail margins which it was proposed to fix under the Order for the goods in question. It has, moreover, been affirmed directly in evidence that resale price maintenance prevents those who secure favourable buying terms from offering the equivalent reduction in retail prices.

93. The low-cost distributor who is prevented by the manufacturer from offering any generally applicable reduction of price by way of discounts has two courses open to him if he wishes to share with his customers the benefits of his low-cost distribution and at the same time to improve his competitive position. He can use his surplus to reduce the prices of articles whose prices are not maintained or he can spend it in the provision of additional services. Both of these methods are open to objection and the larger the proportion of goods covered by resale price maintenance the more serious are the objections.

94. The first method involves a subsidy to customers who buy non-price-maintained goods at the expense of those who buy price-maintained goods. Where the proportion of price-maintained goods is high the reductions have to be spread over a smaller number of goods: the prices of these goods are accordingly driven below the level of the economic price for the efficient shop and competing distributors who do a major part of their business in these commodities are unduly penalised.

95. The second method provides customers with facilities which some of them may not want and denies them the opportunity to choose the amount of service or the combination of price and

service which they require. At the same time the diversion of competition from price to services involves the use of assistants and materials which might be more usefully employed in meeting other needs of the community."*

(pp. 16-19)

The report comments upon the extent, in practice, to which rigid and "unnecessarily strict" methods of enforcing resale price maintenance have been employed by associations of manufacturers and distributors. The following sections refer to the reason for and the consequences of such restrictions on price competition:

"146. This strictness may be said to be to some extent an inevitable consequence of organised, collective enforcement. The articles which are 'protected' by an association in some cases run into the thousands and may vary enormously in their popularity, purpose and suitability for use as loss-leaders. All must, however, if they are sold subject to the resale conditions of a price-maintenance association, be treated alike and breaches of agreement must in theory at least be punished whether any harm has been done to the particular brand or not. It is true that as representatives of the associations have made clear to us, the stop-list is in some trades rarely, if ever, invoked. There is no doubt, however, that its mere existence in the background has been and must be a powerful deterrent to distributors who would like to reduce their prices. Similarly, in drawing up their rules, associations were naturally anxious to cover any and every possible contingency: the fact that, as we have pointed out, many of these rules were never invoked does not mean that they were without effect. Whether by positive action, by threats or by virtue merely of the existence of drastic powers which can be used if necessary, the rigorous enforcement of resale price maintenance is made a relatively easy matter and the application of sanctions becomes a matter of association discipline not related to any question of brand disparagement.

147. In short, these associations seem to us to have turned price maintenance from a reasonable means of preventing damage to well-known high quality brands by the operations of unscrupulous shop-keepers into a comprehensive system for regulating and policing entire industries. Although in some cases they may set out with the simple purpose of eliminating 'destructive' price wars, they appear gradually to widen the scope of their regulation until their main objects are to eliminate price competition among distributors over a wide section of the economy and to bring the whole of a particular trade or of a number of allied trades under their supervision. There is a natural tendency for the members

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* Report of the Committee on Resale Price Maintenance, Cmd. 7696, 1949, (commonly known as the "Lloyd Jacob Report").

and officials of enforcement associations to try to make the protected list or membership more and more inclusive and to extend the scope of the rules to cover less and less direct forms of price-competition, until the business of some specialist traders may be almost entirely controlled and regulated.

148. It must be recognised also that these regulatory schemes do not by any means always stop at the elimination of price-competition. Other activities to some of which we have already referred, although not directly concerned with resale price maintenance, may have a significant effect on its administration. These include attempts to restrict the distribution of particular classes of goods to particular classes of traders, to restrict distributors' purchases to the products of particular manufacturers and to limit the numbers engaged in particular trades or sections of trades. They include also organised bargaining about levels of margins, the establishment of minimum margins and the elimination of special discounts for large orders.

149. The effects of this system on the distributive structure cannot be precisely calculated, for no one can say positively how it might otherwise have developed. It is scarcely possible to doubt, however, that the increase in branding and packing which we assumed at the beginning of our report, combined with the extension of existing associations and the formation of new ones must result in the virtual elimination of price competition in the greater part of the distributive trades of the country."*

(pp. 29-30)

Finally, the conclusions reached by the Lloyd Jacob Committee with reference to the control of "loss-leader" selling are as follows:

"112. It is certainly reasonable for a manufacturer or wholesaler to refuse to supply a distributor who consistently defaults on his accounts or allows goods to deteriorate on his shelves. A manufacturer may also reasonably refuse to supply a retailer who uses his branded goods as loss-leaders. Nevertheless we regard as an unreasonable restraint of trade any arrangement which imposes restrictions on the resale of particular goods--except such as are necessary for the protection of the proprietor's trade and goodwill in his branded article.

113. This is especially important where the branded article in question is widely known for its quality and reputation. Although other articles may be available which are closely similar or identical so long as they are sold under a different brand customers will not treat them as exactly comparable.

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* Report of the Committee on Resale Price Maintenance, Cmd. 7696, 1949, (commonly known as the "Lloyd Jacob Report").

To varying extents every brand owner is a monopolist for whose products there is no wholly satisfactory substitute in the customer's eyes.* Where a manufacturer has succeeded in creating such a strong preference in customers' minds for goods sold under his brand that the demand for his goods is virtually distinct from all other demands, the threat of stopping supplies to a particular distributor is a very effective sanction. There is, therefore, in our view, all the more obligation on the manufacturer to see that he exercises his power in a proper manner. That this is commercially possible is shown by the fact that some manufacturers of nationally advertised branded goods of wide popularity (the very people who stand to lose most from the use of loss-leaders) have in fact traded successfully for years on a basis of recommended retail prices and have taken active steps to maintain these prices only on the comparatively rare occasions when severe price cutting threatened a reduction in the demand for their goods.

114. It appears to us to be contrary to the public interest for a manufacturer to use his power to cut off supplies in such a way as to obstruct the growth of particular methods of trading, to impede the distribution by another manufacturer of competitive goods or to deprive the public of the benefits of low cost systems of distribution."**

(pp. 22-23)

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* "One witness told us that he was offered two products by a manufacturer which so far as he could tell were identical, one a well-known advertised product for sale at 1s. 4 1/2d. and the other for sale under the witnesses' own name. For this second article the witness fixed his price at 9d. But the 1s. 4 1/2d. product continued to sell alongside the lesser-known 9d. article." (p. 23)

** Report of the Committee on Resale Price Maintenance, Cmd. 7696, 1949, (commonly known as the "Lloyd Jacob Report").